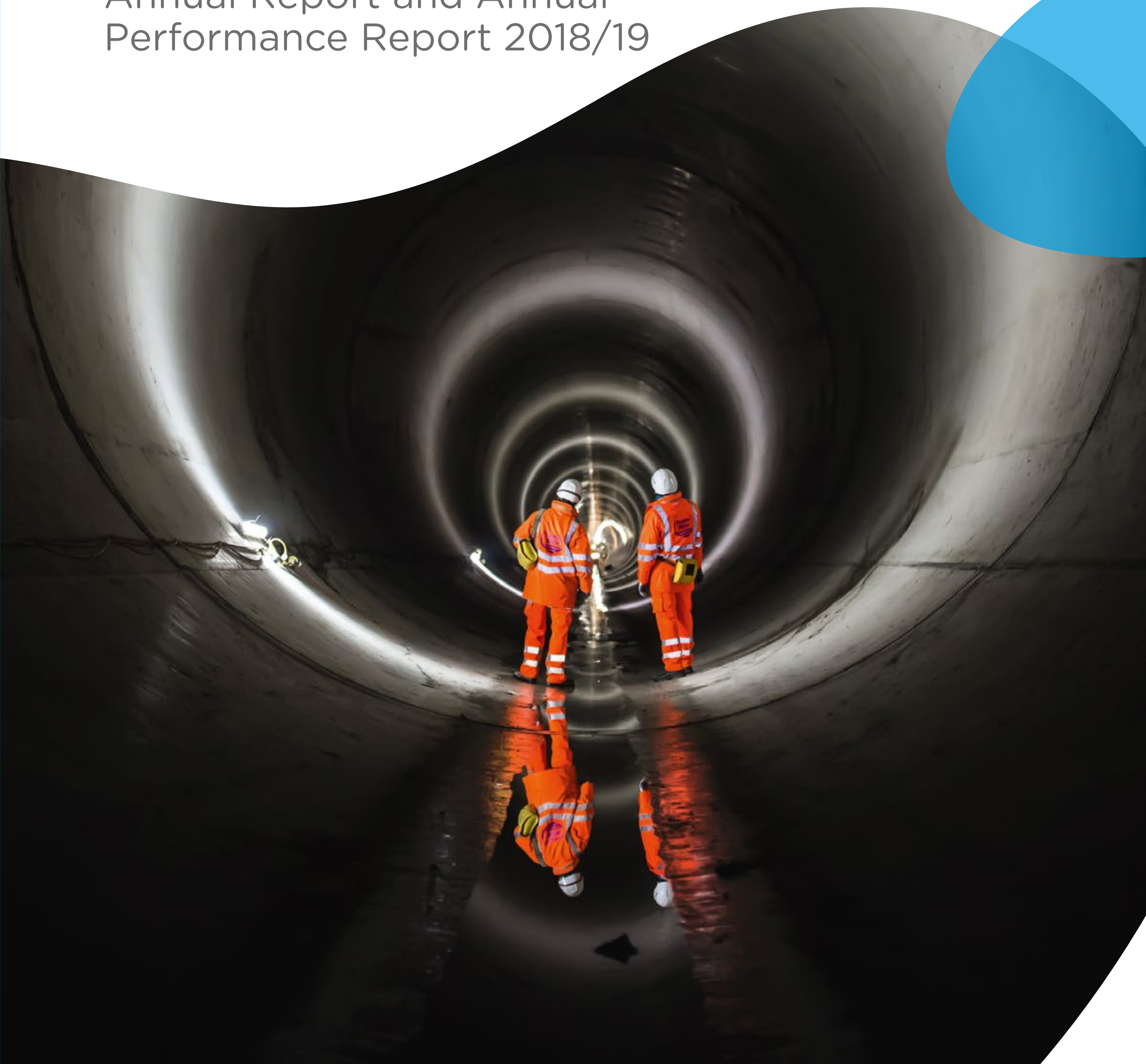
Building a better future

Annual Report and Annual Performance Report 2018/19



A snapshot of our performance

Major review of governance completed

- Independent Non-Executive Directors are largest group on the Board
- Skill set aligned with strategy and purpose

Investing in near-term priorities

- Industry-leading infrastructure investment of £15 billion in last 15 years – on average, triple the annual amount compared to the five years pre-privatisation
- Majority of customers on track to transition to major new customer relationship management and billing platform by March 2020 to drive service improvements
- Spending £1 million a day in leakage prevention and maintenance of our network
- Zero dividends to external shareholders until start of next regulatory period
- Record 41 days gap between lost-time injuries during the year

Positioning ourselves for the future

- 87% customer acceptability of proposed business plan for 2020 to 2025
- Protected customers from supply restrictions during joint hottest summer on record
- Committed to net zero carbon emissions by 2030

Total revenue

£2.1bn

2017/18: £2.0bn

Credit rating

Baa1 negative

March 2018: Baa1 negative

Corporate family rating

Ofwat customer satisfaction rating (out of 5)

4.11

2017/18: 4.17

Investment in our assets

£1.2bn

2017/18: £1.1bn

Profit for the year

£89.9m

2017/18: £218.8m restated

Underlying profit before tax (excluding sale of NHH)

£51.6m

2017/18: £137.4m restated

Household written complaints

21,108

2017/18: 17,039

Leakage

690 Ml/d

2017/18: 695 Ml/d

Pollution incidents

295

2017/18: 292

Water quality

99.96%

2017/18: 99.96%

Greenhouse gas emissions ($ktco_2e$)

275.7

2017/18: 277.9

Electricity generated from sewage

293 GWh

2017/18: 298 GWh

Find out more online and get in contact **thameswater.co.uk**

Our purpose is to build a better future for our customers, our region and our planet by caring for water. Because without water, there is no future.

Board statement

A view from our Board

The purpose of this statement is to outline how, as the Board of Thames Water Utilities Limited ("Thames Water"), we're committed to building a better future for our customers, our region and our planet.

Building a better future

It has been a pivotal year for the Board of this essential business. With more than a third of us new to our roles, including four new Independent Non-Executive Directors, we bring a new dynamic and skills vital for governing a changing Thames Water – one that is fit for today, and tomorrow.

Our year has been defined by the submission of our business plan for 2020 to 2025, an important stepping stone in the delivery of our purpose, to **build a better future for our customers, our region and our planet**. Working with the Executive team, we've helped guide the business planning process to create a plan which will deliver improved services and resilience at an affordable price. As well as being based on insight from over one million customers, it comes with resounding customer support. We look forward to working with our economic regulator, Ofwat to agree our plan in the coming months.

In May 2019, we announced Steve Robertson would step down as our Chief Executive Officer ("CEO") – Steve made a valuable contribution to the business, successfully leading the company through significant change. While we recruit for a replacement CEO, Ian Marchant will act as Interim Executive Chairman.

United commitment to deliver more for customers

Our external shareholders, represented on the Board by four Non-Executive Directors, are committed to our long-term vision, and an improving service to our customers which is resilient to the challenges of our changing world. They support the Board's decision to forgo dividends to external shareholders until the start of the next regulatory period to increase investment in critical areas.

During the year, we confirmed our dividend policy, with further details on page 144. To ensure transparency, when shareholder dividends are paid in the future, we will be clear about their level, how they relate to the delivery for customers, and why they have been awarded. We will also set out how any dividend compares to the returns our external shareholders would have received if our debt levels were lower.

Our executive remuneration policy, which we redefined in 2017/18, aligns reward with the delivery of our critical customer and environmental commitments, and is mirrored in remuneration across the business. (See remuneration policy on page 130.)

We've redefined our strategic priorities:

"Our year has been defined by the submission of our business plan for 2020 to 2025, an important stepping stone in the delivery of our purpose."

Performance and longer-term aspirations

Of our 55 performance commitments set with Ofwat, of those with targets for this regulatory year, we achieved green status for 54%, 12% were amber and 34% were red (2017/18 61% green, 19.5% amber, 19.5% red). You can find more information about our performance on pages 62–73 and about the initiatives we have in place to improve performance in areas where we're not performing, in our strategic report. A summary can also be found in table 3A on page 277.

As part of the 53 performance commitments we plan to deliver for 2020 to 2025, we've committed to reducing leakage by 15% compared to our 2019/20 target of 606Ml/d, and by a larger percentage if we don't meet that target, to ensure we still meet our business plan target of 509Ml/d for 2024/2025. We also aim to reduce pollutions by 30%, written complaints by 50% and to help 200,000 customers with our social tariffs. The next year is crucial as we set the foundations to deliver our ambitious 2020 to 2025 targets and we're taking some important steps in our commitment to drive cost efficiency.

Fostering the right culture

Once fully embedded, the restructure of Thames Water as "One Thames" will break down the remaining silos between our water, waste and retail businesses to increase collaboration and drive improvements for customers. It's been a period of unprecedented change, and, added to the other changes we've made during the past two years, including restructures of our supply partnerships and the embedding of a new strategic direction, it's crucial we foster the right culture within the business. Being open and transparent is becoming synonymous with the new approach to the management of Thames Water, and is the only way to deliver the required service improvements – as a Board we're working with the leadership team to ensure this reaches all areas of the business. We've been revising our values to capture the essence of our new direction and themes such as being proactive and communicating clearly.

Our day-to-day customer engagement has continued to strengthen during the year, with an additional 500,000 proactive texts sent to customer contacts during the heatwave alone. As we continue to build on our robust approach to engagement, we're bringing together the benefit of customer and data insight to make better business decisions and work collaboratively with our customers to deliver benefits in areas such as demand management.

Being open with our customers, and engaging with them at all levels, is an important part of our commitment to openness and transparency. As such, we, as a Board, have been immersing ourselves in direct customer engagement – meeting customers who have experienced problems with our services, so we can better understand their needs and ensure those needs are reflected in our governance. We also meet regularly with our Customer Challenge Group (CCG) and host events with stakeholders including our Annual Stakeholder Review, attended by more than 100 stakeholders such as NGOs, banks and our regulators. In addition, our Interim Executive Chairman, Ian Marchant, introduced a disability conference to raise awareness of issues faced by people with a disability, and to empower them in the workplace (see page 146).

A sustainable business

Providing high quality water and safe sanitation to our customers, every day, is our fundamental purpose; however, our social contract goes much further than that. We are committed to being socially responsible in the communities we operate in, and to the employees we rely on to deliver our services. As well as maintaining our focus on being a good corporate citizen, we look forward to continuing to work with Ofwat on the vision for the water sector.

Sustainability is crucial to the delivery of our essential services over the long term and we're committed to protecting the environment we both rely on and enjoy. The extreme weather events in 2018 reminded us all of the impact of climate change on our ability to deliver our services, and the threat will only intensify. In April 2019, we made a pledge to achieve net zero carbon emissions by 2030, underlining our commitment to mitigate climate change. We spent time during the year working as a Board to test our risk profile, and ensure we have the right mitigating activities in place to manage our risks and ensure the sustainability of our services over the long term in the face of external challenges.

Thames Water has been continuing to evolve, and 2019/20 will be another crucial year as we set our future direction and confirm our plans for 2020 to 2025 with Ofwat. As the guardians of this essential services company, serving over 15 million customers and the heart of the UK economy, we're committed to "best in class" governance and ensuring Thames Water is recognised by our customers and stakeholders as living true to our purpose.

External shareholders is the term used to describe the ultimate owners of the company. Most of our external shareholders are pension funds. They own the shares in our ultimate parent company, Kemble Water Holdings Limited.

Achieving our purpose

Building a better future by driving affordability for all

We exist to serve our customers and we're committed to making our services affordable for everyone.

Driving significant increases in the number of customers we're helping with our social tariffs and priority services register is a cornerstone of our business plan for 2020 to 2025, and we've been making headway in recent months as we prepare to deliver our plan.

During 2018/19, we drove a 41% increase in the number of customers on our social tariffs. By insourcing our Local Authority and Housing Association customer relationships during 2018/19, we're now able to have direct contact with these customers, helping ensure we're meeting their individual needs.

We've also simplified our social tariffs. Although they're now based purely on income, we're maintaining historical social tariff rates for those who are already on our tariff and would see an increase under the revised calculation.

41%

increase during 2018/19 in the number of customers we're helping with our social tariffs

Find out more online and get in contact **thameswater.co.uk**

Achieving our purpose continued

Building a better future by moving to net zero carbon emissions by 2030

At both ends of the temperature spectrum, the 2018 extreme weather events had a lasting impact on our operations, and brought the increasing threat of climate change into sharper focus.

As a responsible company with energy-intensive operations, we have an important role to play in the mitigation of climate change, which is why we've pledged to achieve net zero carbon emissions by 2030.

As part of our commitment to be more sustainable, we're already generating 22% of our own electricity and, as of 2018/19, Basingstoke sewage treatment works is 100% powered by electricity generated at the site. Where we're not able to generate our own renewable electricity for our power needs, we buy 100% renewable grid electricity.

During 2018/19 we self-generated

22%

of our own electricity to power our operations

Find out more online and get in contact **thameswater.co.uk**

Achieving our purpose continued

Building a better future by setting stretching long-term ambitions

2018/19 has been an important year, during which we set our plans to build a better future.

In September 2018, we submitted our business plan for 2020 to 2025 – otherwise known as Price Review 19. A revised version was resubmitted in April 2019, balancing feedback from Ofwat, customers and other stakeholders. Based on insight from more than a million of our customers, the plan is set to deliver a comprehensive package for our customers, based on what they have asked for.

- Reduce pollution incidents by 30%
- 20% reduction in internal sewer flooding
- Reduce leakage by 15% compared to our 2019/2020 target of 606 Ml/d, with a commitment to increasing the percentage reduction if we don't reach that target, to ensure we still meet our 2024/25 target
- Reduce our average annual combined household bill by £5 in real-terms, equivalent to 1.3%, by 2024/25

We've also submitted our Water Resources Management Plan which sets out how we will provide a secure and sustainable supply of water for our customers 80 years into the future, and support economic growth.

15%

reduction in leakage between 2020 and 2025, compared to our 2019/2020 target of 606 Ml/d).

Find out more online and get in contact
thameswater.co.uk

Achieving our purpose continued

Building a better future by creating a more intelligent network

The digitalisation of our network underpins the delivery of our plans for the future.

In the past couple of years we've driven a step change in our digital story. By creating a smarter network, we're able to be more targeted in our approach to maintenance and repair, driving cost and operational efficiencies, and protecting our customers from faults on our network.

We've now installed almost 1,000 sewer depth monitors to date, to help us better understand how our waste network is flowing. Although in their infancy, with a total of 200,000 due to be installed by 2025, we're already seeing positive results. In 2018/19, 179 blockages were detected by the monitors and we saw a 3% reduction in internal sewer flooding incidents. The technology will also help reduce pollution incidents.

The installation of smart meters as part of our progressive metering programme aids with the detection of leaks by detecting continuous use at customer properties; in 2018/19 this led to a total saving of 12.13 Ml/d. We've also installed 27,183 acoustic loggers, which help pinpoint leaks in our water infrastructure and this new technology detected 45.68 Ml/d during 2018/19.

c.1,000

sewer depth monitors installed to date

Find out more online and get in contact **thameswater.co.uk**


Rainfall Radar

Interim Executive Chairman's statement

Rebuilding trust

"We've now completed a major review of our governance to reflect "best in class" standards."

We have continued to evolve during the year, reaching some important milestones as we realign the business around our customers, rebuild trust with stakeholders and ensure the sustainable provision of our essential services.

The setting of our plans for 2020 to 2025 involved the Board working with teams across the business to ensure our plan was the right one, and truly reflected customer needs in the face of rising external challenge. We must be ready for what the future holds, particularly around climate change and population growth – the fragility of our network was all too evident when we were faced with the "freeze thaw" in March 2018. Ours is a plan that tackles the critical issues head on.

In May we announced Steve Robertson would be stepping down as our Chief Executive. During his tenure, Steve successfully led the business through significant change, putting the building blocks in place for long-term success, and I would like to thank him for his service as our CEO. Under his leadership, we have increased our focus on customer satisfaction, improved our incident response capabilities, expanded support for families in vulnerable circumstances and invested around £3 billion in our network. We have started the recruitment process for a replacement CEO and, in the meantime, I am acting as Interim Executive Chairman.

"There were critical skills I wanted to recruit to make sure we were set up in the right way to govern Thames Water on behalf of our customers."

Rebuilding trust

As well as submitting our plans during the year, we completed a major review of our governance to reflect "best in class" standards. I launched the review when I became Chairman back in January 2018, as it was obvious we needed to make some radical moves to rebuild trust with some of our critical stakeholders and refocus our priorities to improve performance in key areas.

As part of the review, we restructured the Board. As well as ensuring Independent Non-Executive Directors are the biggest group, there were critical skills I wanted to recruit, to make sure we were set up in the right way to govern Thames Water on behalf of our customers. With our revised strategic direction putting customer interests at the heart of business decision making, customer service was obviously key. I also wanted to make sure we had expertise in engineering, network operations, regulation and culture change. You'll see in our new skills matrix on page 106 that these skills are represented with strength on today's Board. To maintain the highest levels of governance, we've appointed Nick Land as Deputy Chairman, while I act as Interim Executive Chairman.

With London and the Thames Valley on our patch, we represent a diverse cross section of the UK, and increasing diversity on the Board has been another key focus for us this year. While we need to hire people with the right experience for the job, we've been mindful of reflecting the diversity of our customers and stakeholders, and we've been making positive steps.

During the year, we were recognised by our economic regulator, Ofwat, for our improved approach to reporting. I'm delighted we were upgraded to "targeted" status under their Company Monitoring Framework assessment for 2017/18, and we look forward to building on this success. The final closure of our Cayman Islands subsidiaries in February 2019 underlines our commitment to simplifying our structure.

Relationship with external shareholders

We're lucky to have a strong external shareholder base. Two-thirds of our external shareholders represent pension funds, including our two largest external shareholders in Canada and the UK. Their long-term and sustainable investment view, and that of all our external shareholders, very much aligns with our purpose. Getting performance back on track will benefit everyone in the future and they are fully supportive of prioritising investment in the business.

Brexit

The outcome of Brexit is uncertain. What is certain, is that we've been working hard to ensure we're resilient and ready to protect our customers, whatever the eventuality. We've been assessing the potential impact of Brexit and we are taking the necessary actions to minimise disruption to our customers and our water supply (for more information on Brexit risk see page 35).

Operational performance

The quality of our drinking water remained very high, with 99.96% compliance and we've driven improvements in areas such as sewer flooding reduction, social tariff transitions and limiting greenhouse gas emissions. We also reached the closing stages of some critical resilience projects, including our Deephams sewage treatment works upgrade, which won the coveted "Greatest Contribution to London" award at the ICE London Civil Engineering awards.

During 2018, we had zero of the most serious pollution incidents for the first time in ten years. Our overall pollutions performance for 2018 was broadly in line with 2017, with current pollution levels being 46% lower than five years ago – our increasing use of digital technology to create a more intelligent network and enable more proactive maintenance and repair will help drive another step change in reductions.

The year has thrown us some challenges; however, we haven't been knocked off course in the pursuit of our long-term goals. Despite the impact of the "freeze thaw" and the exceptionally hot summer in 2018 causing a spike in leakage, we've managed to bring it down a little since last year. However, we recognise performance still isn't good enough and we've not met expectations. We finished the year at 690 Ml/d (2018/19: 695 Ml/d). The extreme weather also contributed to an increase in customer complaints with over 12,000 calls on 4 March 2018, the height of the "freeze thaw", and an average of over 4,000 calls a day between 1 and 10 March 2018 compared to an average of just over 1,000 calls a day during the same period in 2019. A diversion of resources to cope with the increase in calls, and to ensure customers affected by weather-related supply interruptions were prioritised, led to a back log of jobs, therefore contributing to a rise in complaints in 2018/19. Leakage and complaints reductions will be two of our key focus areas during 2019/20 (see performance section pages 62–73).

Priorities for 2019/20

The development of our business plan was an important step in our evolution. To us, this isn't just about the next five years. It's about the future direction of Thames Water. After submitting our 2020 to 2025 business plan in September, and fine-tuning it in April, we now have a plan supported by 87% of our customers and we look forward to working with Ofwat to agree it in the coming months.

2019/20 is set to be another busy year, with our key operational focus being to drive cost efficiency, reduce complaints, successfully transition all our customers to our new customer relationship management and billing platform and secure a larger reduction in leakage as we head towards the start of the next regulatory period and the delivery of our plan for 2020 to 2025.

Ian Marchant
Interim Executive Chairman
27 June 2019

Q&A with the Executive team

Building resilience to external challenges

Steve Spencer
Chief Operating Officer

Q. What are you doing to tackle your biggest operational challenges?

A. The core focus and challenge of our operation must always be to deliver high quality water to our customers and treat wastewater efficiently and safely whilst protecting and enhancing the environment. Within this overall aim, reducing leakage and customer complaints are two of our most important priorities for the coming year.

Written complaint volumes last year were high and we acknowledge we are considerably behind our peers. We need to address the fact that customers are not receiving the service they expect, and feel they have little option but to write and complain. We have a number of key initiatives this year to start addressing this issue.

In terms of leakage, although 27% lower than 15 years ago, we were still significantly above the leakage target we set ourselves for the end of 2018/19. We need to accelerate recent improvements as we strive to achieve our 2019/20 target of 606 Ml/d. We have completely overhauled our approach to leakage, including investing £376 million this year on leakage prevention and network maintenance activities, and £1.7 billion for the current regulatory period. We've also changed the management structure, increased dedicated resources, amended supply chain arrangements and introduced new processes allowing us to fix over 71,000 leaks this year. While the extreme weather events had an impact on our ability to reduce leakage, we saw a promising end to the year, with a 13% reduction between the last week of March 2018 and the same week in 2019. By 2025 we plan to have brought leakage down to 509 Ml/d, our best-ever performance.

We've learned important lessons from the "freeze thaw" incident in March 2018 and 96% of the commitments we outlined in our written response, submitted to Ofwat in September 2018, are either completed or "on track". We've also seen a 60% reduction in large bursts causing property flooding since committing to invest c.£100 million extra in our largest "trunk" water pipes during this regulatory period. There's still plenty to do and although we're not yet where we want to be, we have made significant improvements.

Kelly Macfarlane
Customer Experience Director

Q. What are you doing to improve customer experience?

A. We have millions of interactions with our customers every year, from households to retailers and developers. To improve our ability to serve our customers, we've launched a major customer relationship management and billing system with the majority of our customers due to be transitioned by March 2020 (page 51). We're also working on the development of a new website to better meet the needs of all our customers and stakeholders, and make it easier for them to self-serve. Combined with investment in our operational assets, these projects are critical to improving our customer service and complaints performance.

Our customers have been clear they expect us to be proactive during incidents to protect their water supply and, if there is a supply interruption, that we provide brilliant service, in terms of speed of resolution and communication. Improving customer service during incidents remains a key focus for us – whilst progress has been made we recognise we have more to do.

Having engaged with more than one million customers to create our business plan, we're continuing with this collaborative approach to improve customer outcomes. Proactively engaging customers to minimise demand during the heatwave and change flushing behaviours after the infamous Whitechapel fatberg reduced the likelihood of supply restrictions and sewer flooding, and underlines the importance of customer participation.

We're committed to, and passionate about, making a step change in our support for customers in vulnerable circumstances. Making sure we're able to reach the customers most in need of support, during a supply interruption or when paying their bill, is not always straightforward and so we're engaging with customers in new ways, working in partnership with charities like Age UK.

See our community section **page 86**

Brandon Rennet
Chief Financial Officer

Q. What are your financial challenges?

A. One of our main challenges is to be able to deliver more for customers without increasing bills, in line with our business plan for 2020 to 2025. We are looking hard at opportunities across the business to deliver the stretching efficiency gains that underpin the plan.

Along the same theme, it's crucial we maximise the benefits of the investments we've been making. Investment has remained high, running at more than £1 billion again this year and has included an increase in spend in key areas such as digital, which holds huge potential for both customer service improvement and cost reduction. I expect my team to be very active in helping ensure the benefits of this investment are realised.

I'm also keen to continue the important work we've been doing to ensure long term financial resilience and transparency. We will look at ways to provide further reassurance to key stakeholders, as well as progressing our plans to reduce our level of gearing.

Another of our key priorities is to agree a series of major commercial arrangements with our supply chain, as we approach the start of the next regulatory period and the mobilisation of our business plan. This will include significant focus on how we introduce "Direct Procurement for Customers", which is a new commercial model aimed at realising greater innovation and value for customers in relation to the largest of our capital projects.

See our Chief Financial Officer's report **page 22**

Lawrence Gosden
Asset Management Director
Q. What are the risks to your assets and how are you mitigating them?

A. Given the nature of our region, the effects of enduring challenges such as climate change, population growth and rising customer expectations are particularly acute. These challenges aren't new, however, they're intensifying. We also face unique challenges within our business, as the custodians of the country's oldest network, and serving the UK's capital city and heart of the economy. The impact of the severe weather events of 2018 on our ageing network underlined the need to be more resilient and reinforced the fundamentals of our plan for 2020 to 2025 – our business model needs to be "fit for purpose" in our changing world.

We're committed to maintaining high levels of investment in our water and wastewater systems as part of our "systems operator" approach to asset management, where our operations are viewed in the round from source to tap or customer drains to rivers. In recent years we've been taking a much more proactive approach to repair and maintenance, which will be boosted by our digital transformation, and will deliver benefits to customers as well as both cost and operational efficiencies.

John Beaumont
Digital, Strategy and Transformation Director
Q. How are you embracing technology?

A. As we prepare to deliver our plan for 2020 to 2025, this year has seen us drive a step change in our digital approach. Although still in the early stages of our digital transformation, we're exploiting the benefits of new and innovative technology to drive both cost and operational efficiencies. The installation of smart meters, acoustic loggers and sewer depth monitors, along with the ability to have near real-time visibility of 49 water systems, are crucial to the creation of a more intelligent network, which enables us to use insight to make better business decisions.

During the year, we've also been investing in our IT infrastructure, as part of our £60 million investment programme. We've now upgraded the network at key sites, including our head office and call centre, improving security and increasing resilience. We've also migrated our mainframe from a physical box to a cloud-based platform to increase capacity and further improve resilience.

IT stability and performance is crucial for the delivery of good customer service and efficient operations in a 21st Century world. Our investment to improve our digital capabilities means we're able to drive down the time it takes to restore services, minimising disruption to both customers and our operations.

Janet Burr
Human Resources Director
Q. How are you performing in health, safety and wellbeing?

A. Research shows that organisations with engaged employees tend to have 10% more satisfied customers and are 21% more productive.

We can't achieve our goals and deliver great customer service without our people, so being a diverse and inclusive employer which cares about the safety, health and wellbeing of our employees is so important.

During the year we reached a record 41 days without a lost-time injury as we continue to focus on making sure everyone goes home safe each day. We also made important progress in relation to diversity and inclusivity with our employee engagement scores continuing to improve; our gender pay gap continuing to steadily decrease; and moving up 25 places in the Stonewall Workplace Equality Index. We also signed the social mobility pledge and co-collaborated on the Sector Inclusion Commitment.

One of our wellbeing focuses has been our commitment to dissolve the stigma around mental health. With one in four people in the UK directly affected each year, we're committed to creating an environment where our people can talk openly about how they are really feeling at work, in the same way we speak about our physical health. In recognition of our approach, we were one of four companies consulted by Mental Health First Aid England in its compilation of new published guidelines for employers.

> "Reducing leakage and customer complaints are two of our biggest priorities for the coming year."

Steve Spencer
Chief Operating Officer

Q&A with the Executive team continued

Richard Aylard
Sustainability Director

Q. How are you adapting your business model to challenges such as climate change?

A. Climate change is one of the important challenges impacting our business; we need to simultaneously reduce our contribution to climate change and minimise its impacts.

We have a long-standing approach to sustainability including responding to climate change. It is woven into the way we operate, and we've been making big strides. In April 2019, we pledged to achieve net zero carbon emissions by 2030; a significant challenge, underlining our commitment to reducing our contribution to the causes of climate change. We don't yet have all the answers to meeting the challenge, but we need to show both aspiration and leadership.

To ensure there's enough water to meet customers' needs despite the pressure due to climate change, we work to reduce demand. This includes running an award-winning water efficiency programme, installing smart meters and reducing leakage as fast as possible.

We contribute positively to the circular economy by self-generating renewable energy from sewage, wind and the sun, reducing costs and minimising our greenhouse gas emissions. We also recycle treated sewage biosolids to land as a fertiliser for crops and create synthetic aggregate from a by-product of the waste treatment process.

Our Smarter Water Catchment approach see page 57 will fundamentally change the way we look at environmental protection. Working with NGOs, farmers, the Government and companies in our region, we're already making a difference; for example; by reducing chemicals leaching into rivers from farmland, we improve river quality, benefit local ecosystems and there are less contaminants to remove as we turn this water into drinking water.

Many of these activities will increasingly be delivered through cross-sector collaboration and we are actively looking to strengthening existing partnerships and develop new ones.

See our sustainability section
page 78

Nick Fincham
Strategy and Regulation Director

Q. Where are you in the business planning process?

A. We have built a plan that will deliver what our customers have asked for – balancing affordability with the need to invest in the long-term resilience of our assets and services.

We were disappointed to be placed in "significant scrutiny"; however, we've been engaging with Ofwat to work through their feedback and understand their concerns on the scope and efficiency of our plan.

After revising our plan in April, following their feedback and that from other stakeholders, we now have a plan that 87% of our customers support and we're ready to put it into action. 2019/20 is crucial in preparing for the delivery of our plan, so we're keen to make a start as soon as we can.

The very next step in the PR19 process will be the publication of Ofwat's Draft Determinations in July 2019. As we work with Ofwat during the remaining stages of the PR19 process, our interest will be to secure an outcome which is in the best long term interests of our customers and the environment.

> "To ensure there's enough water to meet all our customers' needs, despite the pressure on resources due to climate change, we've been doing what we can to reduce demand."

Richard Aylard,
Sustainability Director

Maintaining the highest quality

650

According to a report by the Mayor of London, a bottle of branded water is 650 times more expensive than tap water.

Every day we deliver 2.7 billion litres of one of life's essential ingredients – fresh drinking water – direct to the homes of nearly 10 million customers across London and the Thames Valley. It is no mean feat and we're committed to ensuring our water is always of the highest quality.

We conduct over 400,000 tests each year from reservoirs, treatment works and randomly selected homes and businesses; samples collected from customer properties have been consistently achieving 99.96% compliance with our water regulator, the Drinking Water Inspectorate's (DWI) tests.

0.03% of all samples collected fail very stringent requirements well below anything that would cause any harm to public health. That said, we're working hard to reduce that number and move closer to 100% compliance with water quality regulations. We've launched a new transformation programme, working with the DWI, which will improve hazard reviews and increase investment to eliminate the risk of cryptosporidium; ensure the highest levels of monitoring and control; and make sure our employees have the right capability to maintain exceptional water quality.

£1 a day

We provide both water and wastewater services to customers for just over £1 a day, on average.

Leakage

Reducing leakage by being smarter

Just over a quarter of the water we treat doesn't reach our customers' taps, for a variety of different reasons which are attributed to leakage – tackling it is one of our biggest priorities. We're committed to ensuring the sustainable provision of our services for today's generations and those of the future.

Reducing leakage isn't simple. In fact, given the age and location of our network, as well as bill impact considerations, it's our biggest challenge. Against the backdrop of increasing pressure from population growth and climate change, reducing leakage is both an urgent and difficult task.

Over the past two years, we've been increasing our focus on leakage reduction, revising our approach and restructuring our alliance relationships to improve efficiency of leakage activity and drive down costs. We've been making huge steps as we work together as a team, and with our customers, our partners and stakeholders around us, to protect this life essential ingredient.

While we estimate we've completed 448 million litres per day (Ml/d) of leakage reduction work in the past year, the enduring impact of 2018's extreme weather events knocked our speed of improvement off course. Our average leakage for the year was 690 Ml/d (2017/18: 695 Ml/d); however, the average for the final week of the year, at the end of March 2019, was 654 Ml/d, a 13% reduction on the same week the previous year.

To convert our improvements into more significant leakage reduction, we're increasing our understanding of our network, so we can locate more hidden leaks, and increase our resilience to both internal and external challenges. We've been increasing our digital capabilities, as we exploit the use of technology to become smarter in our approach. This is just the start of this journey as we become better at collecting data and information, and using insight to drive better leakage reduction decisions.

We've reduced leakage by

27%

over the past 15 years

We spend

£1 million

a day on leakage reduction activities and maintaining the network

We plan to reduce leakage by

15%

between 2020 and 2025, compared to our 2019/20 target of 606 Ml/d

Leakage can be difficult to understand – it's not a straightforward problem with an easy answer. Over the page we bring our leakage story to life.

Read more about our data to insight to action **pages 52–53**

Read more about our resilient systems and assets **pages 54–55**

Read more about our protecting and enhancing the environment **pages 56–57**

Leakage continued

The different types of leaks fixed

47%

Hidden leaks – are underground and rarely reach the surface, so they are more difficult to locate

28%

Visible leaks – seen above ground, are more easily detectable and quicker to find and repair, therefore don't contribute significantly to our leakage position

25%

Customer side leaks – leaks at a customer's property

What we're doing to tackle leakage

While the 2018 extreme weather events had an impact on leakage performance, we've made headway in our approach:

23%

year-on-year increase – a step change in the number of **"find and fix" leakage jobs completed**

21%

increase in the **number of crews dedicated to fixing leaks**

11%

increase in the number of **investigations** in 2018/19, clamping down on those who are using water for building works without paying for it

Almost

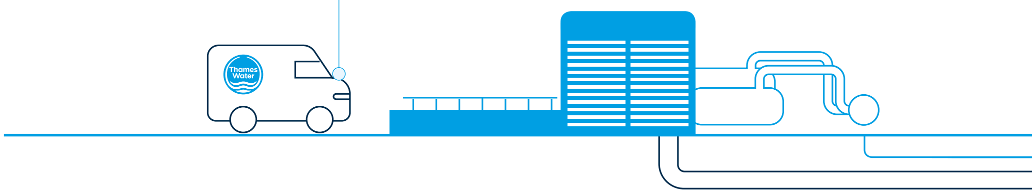
£100 million

additional investment in our largest trunk" water mains this regulatory period. Improvements include the development of an analysis tool, improved targeting and reporting of "trunk main" leakage and additional valve checks in highest risk areas in central London, helping drive a 60% reduction in large bursts causing property flooding since 2016/17

55

commitments after an investigation into the impact of March 2018's "freeze thaw", with 96% completed or "on track"

The set up of a specialist, cross-functional Leakage Task Force in November 2018 to oversee and promote mitigating actions



The challenges we face in reducing leakage

An aging and urban network

c.62%

of our 31,550 kilometres of water pipes are over 60 years old

55%

of our water pipes are under London

Repairing our pipes has the potential to disrupt many more people, with our region being the country's most densely populated by far

Increasingly volatile weather associated with climate change

Cold weather
Causes pipes to expand and contract causing cracks

Hot weather
Increases demand and therefore pressure on pipes, and dry ground around pipes causes instability

327,000

smart meters installed to date to help detect leaks where consumption levels are unusually high

Increasing focus on leakage innovation including thermal analysis from aeroplanes

250,000

smarter home visits with customers, to date, to help detect leaks at customer properties and encourage customers to be more water efficient

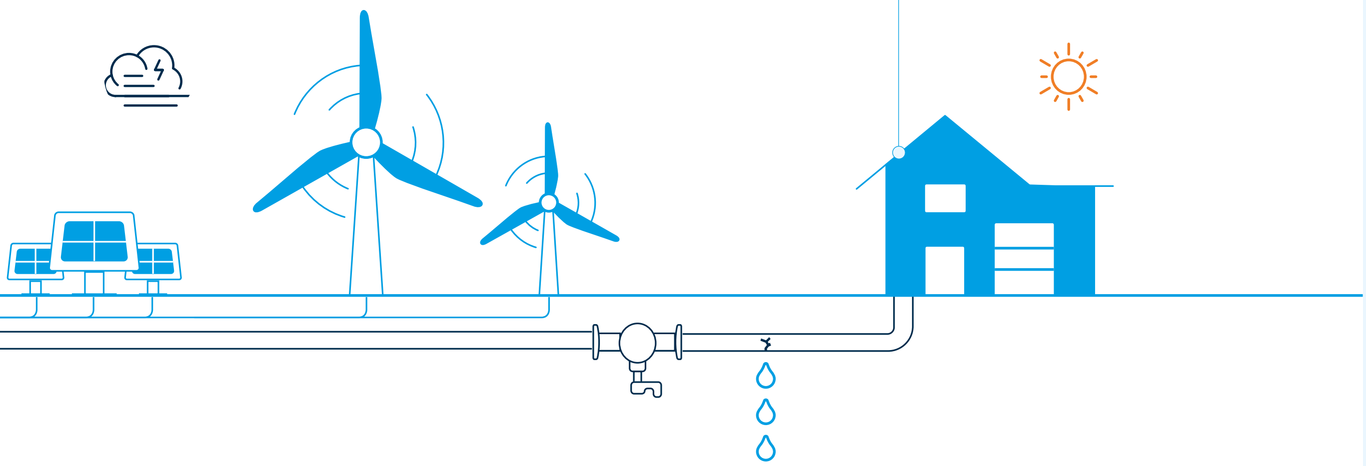
27,000

acoustic loggers installed to date. This new technology detected 45.68 Ml/d during 2018/19

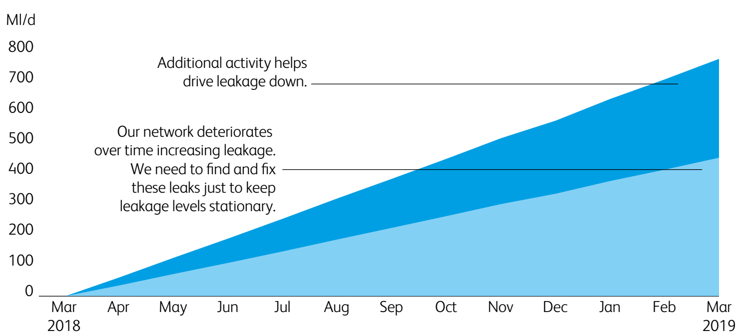
Calming the network

Pressure changes in our water pipes cause shockwaves to weaken vulnerable areas of the network, leading to leaks and bursts. Increasing water distribution during hot weather, the closure of valves, pumping water against gravity and the rapid change in direction of flow through a pipe can all put excessive stress on the system.

Management of our current assets to promote longevity helps reduce the need for mains replacements. As part of this approach we're "calming" water pressure through our "Calm System Operations" initiative. We're making changes including optimising pump operation and valve monitors, improving training, and using new technology to detect and reduce system shock.



Leakage reduction activity and expected leakage due to network deterioration



Our leakage level for 2018/19 was

690 Ml/d

(2017/18: 695 Ml/d)

Chief Financial Officer's statement

Sustainable and responsible financing

"As with our day-to-day operational decisions, taking a sustainable approach to financing is crucial to ensuring the long-term stability of our services."

Performance overview

We made the decision to increase investment in some critical areas during the year to drive long-term improvement. This saw investment levels, at £1.2 billion, break the £1 billion barrier once again, which is three times the annual investment compared to the five years pre-privatisation. Over the last 15 years we've invested over £15 billion in the business.

We also increased our operating expenditure during the year to continue to drive improvements in customer service. Higher employment costs combined with the costs associated with adverse weather effects drove a £60.4 million year-on-year increase. As a result, underlying operating profits fell to £454.0 million (restated 2018[1]: £505.9 million). To fund this additional spend, we announced last year that there would be no dividends paid to external shareholders for the three years to 2020 – a key decision that was supported by our external shareholders, in order to focus on investment to drive improvements.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 215–220.

"We're investing three times more a year compared to the five years pre-privatisation."

Financial performance

Year ended	31 March 2019			31 March 2018[1]		
	Underlying	**BTL***	**Total**	Underlying	BTL*	Total
Revenue (£m)	**2,036.9**	**47.5**	**2,084.4**	2,018.0	26.9	2,044.9
Operating expenses (£m)	**(1,654.7)**	**(0.3)**	**(1,655.0)**	(1,594.2)	(0.4)	(1,594.6)
Operating profit (£m)**	**454.0**	**47.2**	**501.2**	505.9	26.5	532.4
Net finance expense (£m)	**(364.7)**	**–**	**(364.7)**	(409.4)	–	(409.4)
Net (losses)/gain on financial instruments (£m)	**(37.7)**	**–**	**(37.7)**	40.9	–	40.9
Profit before tax (excl. sale of NHH) (£m)***	**51.6**	**47.2**	**98.8**	137.4	26.5	163.9
Sale of NHH (£m)	**–**	**–**	**–**	89.7	–	89.7
Profit before tax (£m)	**51.6**	**47.2**	**98.8**	227.1	26.5	253.6
Profit after tax (£m)	**45.5**	**44.4**	**89.9**	193.9	24.9	218.8
Capital expenditure including intangibles (£m)	**1,188.7**	**n/a**	**1,188.7**	1,148.8	n/a	1,148.8
Net debt (£m)	**11,619.8**	**–**	**11,619.8**	10,981.5	–	10,981.5
Dividends paid to immediate parent company (£m)	**60.0**	**–**	**60.0**	55.0	–	55.0
Dividends paid to external shareholders (£m)	**–**	**–**	**–**	–	–	–
Interest cover (PMICR)****	**1.6**	**–**	**–**	1.6	–	–
Gearing (%)*****	**82.2**	**–**	**–**	81.3	–	–
Credit rating******	**–**	**–**	**Baa1 negative**	–	–	Baa1 negative

* Refer to page 161 for information about the Bazalgette Tunnel Limited ("BTL") arrangement
** Operating profit includes revenue and other operating income (disclosed in note 2), offset by operating expenses
*** This measure is statutory profit before tax less the profit recognised on sale of the non-household (NHH) business in 2017/18 per Note 5 on page 187
**** As defined on page 178
***** Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 304
****** Representing the consolidated Corporate Family Rating assigned by Moody's, defined on page 26

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 215–220.

Increasing transparency and improving financial resilience

One of the big themes I talked about in last year's Annual Report was the importance of increasing transparency as a key step in building trust. This remains one of our highest priorities and I'm very pleased that we've made real progress on a number of fronts:

- **Promoted under the Company Monitoring Framework**, which is Ofwat's assessment of whether companies are communicating in a clear, accessible and transparent way and that the information gives a fair view of how a company is performing
- **"Low risk" status confirmed by HMRC**, based on its assessment including behavioural factors, such as systems and delivery, governance and approach to tax compliance
- **Reducing our gearing level:** Our gearing (the amount of net debt relative to the regulatory capital value) at 31 March 2019 was 82.2% (2018: 81.3%) before considering the de-gearing impact of a cash injection of £250 million[1], equivalent to 1.8% of our 31 March 2019 RCV, completed in April 2019.
- **More closely aligned our financing with our environmental focus**, by structuring our main £1.65 billion bank facilities so the margin is tied to environmental performance, with any savings being payable to charitable causes
- **Simplified our corporate structure**, with the removal and liquidation of the Cayman Islands subsidiaries and the closure of a number of other overseas companies from our past as an international company
- **Clarified our reporting**, with this Annual Report and consolidated financial statements presenting the combined results of Thames Water Utilities Limited and its sole subsidiary Thames Water Utilities Finance plc ("the TWUL Group") as if it were a single economic entity. This provides all interested parties with a complete overview of the operating company and the finances in place to support its operations and enhance understanding, presenting the results of operations, financing and financial position in one place.

Our business plan for 2020 to 2025 sets out our ambitions around strengthening financial resilience – ensuring that customers are protected even in extreme circumstances. In our April 2019 revision, we expressed our desire to de-gear the company to 77.7% by 2025, including by further reducing more of an inter company loan due to Thames Water Utilities Limited, the operating company.

We have again analysed our long term viability over a ten year time horizon to reflect the very long-term nature of our business and assets. This is set out in the Long Term Viability Statement on pages 45–49.

Delivering efficiently

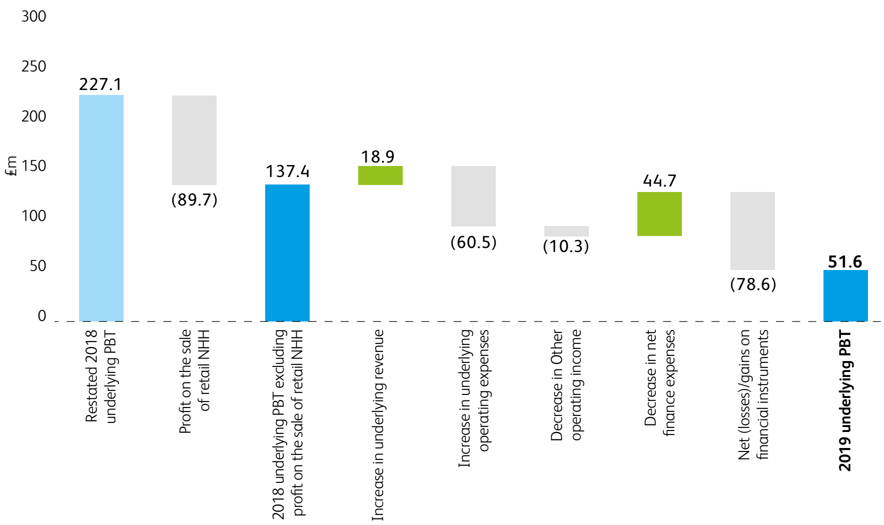
Looking ahead, it is clear we must focus on delivering more for customers without increasing bills. Our business plan is based on a 22.5% reduction in the base operating cost of serving a customer property. To deliver this stretching outcome, we have launched a wide-ranging cost transformation programme to ensure we target our resources on front-line service delivery that matters most to customers, and we spend every pound efficiently – completing as many jobs as possible first time, which is clearly best for customers.

Our five year plan is based on delivering what our customers have asked us for, with the revised April plan providing a broad customer-centric package of outcomes, with a combined, household water bill reduction of £5, or 1.3% in real terms, over the regulatory period.

1 This was effected via a £220 million reduction in the principal of the intercompany loan due to Thames Water Utilities Limited, with the remainder used to repay the accrued interest associated with the intercompany loan.

Chief Financial Officer's statement continued

A summary of the movement in our underlying Profit Before Tax (PBT)



Environment, Social and Governance (ESG)

To support our strategic priorities and our approach to sustainability, the past 12 months have seen our continued efforts to put the Environment, Social and Governance (ESG) agenda at the heart of our financial decision making, following the first issue under our green bond framework last year. In November 2018, we increased the size of our revolving credit facility with the margin tied to our sustainability performance, and committed that any outperformance would be applied to charitable causes. The interest on this five year, £1.65 billion facility is tied to our annual performance against ESG metrics, as determined by our Infrastructure Global Real Estate Sustainability Benchmark score (GRESB). Any costs associated with underperformance would effectively be borne by our external shareholders.

GRESB is an independent external ESG benchmark which assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Our current GRESB score is 86 out of 100, against an average participant score of 62.

£398

Our average annual combined household bill for 2019/20 is £398, which is the third lowest in England and Wales.

Revenue

As a regulated business, we undergo a price review process every five years, which determines the revenues we collect through customer bills based on the costs of investment and of operating the business. Underlying revenue is therefore not subject to significant year-on-year fluctuations.

Total revenue for the year ended 31 March 2019 has increased by £39.5 million to £2,084.4 million compared to the previous year.

Our bills for wastewater customers include amounts relating to the costs of the Thames Tideway Tunnel. As we collect the cash, it is passed over to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the tunnel (to the public the company is known as Tideway). As this money is not retained by us, we exclude it from our underlying results. The annual amounts included in our bills are driven by the phasing of construction works, which is the primary reason for the large increase in revenue related to BTL, from £26.9 million during the year ended 31 March 2018 to £47.5 million during the year ended 31 March 2019.

Overall, underlying revenue for the year ended 31 March 2019 has increased by £18.9 million to £2,036.9 million compared to the previous year. The primary reason for this is an increase in the year-on-year allowed revenue as set out in the Final Determination issued by Ofwat at the start of the current five year regulatory period.

This has however been offset by £40.3 million of Outcome Delivery Incentive[1] (ODI) penalties that the Company chose to return to customers early and additional under-recoveries against our allowed revenue due to lower than forecast property numbers and consumption volumes compared to those assumed when our charges for the year were set.

For details on how we spent every pound in 2018/19 see page 33.

1 For more information on ODIs see page 62.

Overall performance

Previously, for the year ended 31 March 2018 we had presented the accounts of TWUL as a single statutory entity. Our overall performance, as discussed below, for the current year includes the consolidated results for the TWUL Group.

Total profit before tax ("PBT") for the year ended 31 March 2019 was £98.8 million (31 March 2018: £253.6 million). As noted above, our financial statements include the effect of revenues billed in relation to the construction of the Thames Tideway Tunnel, which are passed to BTL, the third party responsible for the construction of the tunnel. Stripping out these revenues gives the underlying PBT of £51.6 million (31 March 2018: £137.4 million, excluding profit on sale of NHH business). A summary of the movement in our underlying profit before tax is provided on this page.

Operating expenses

Our total operating expenses have increased by £60.4 million (3.8%) to £1,655.0 million (restated 31 March 2018: £1,594.6 million). The increase can be attributed to:

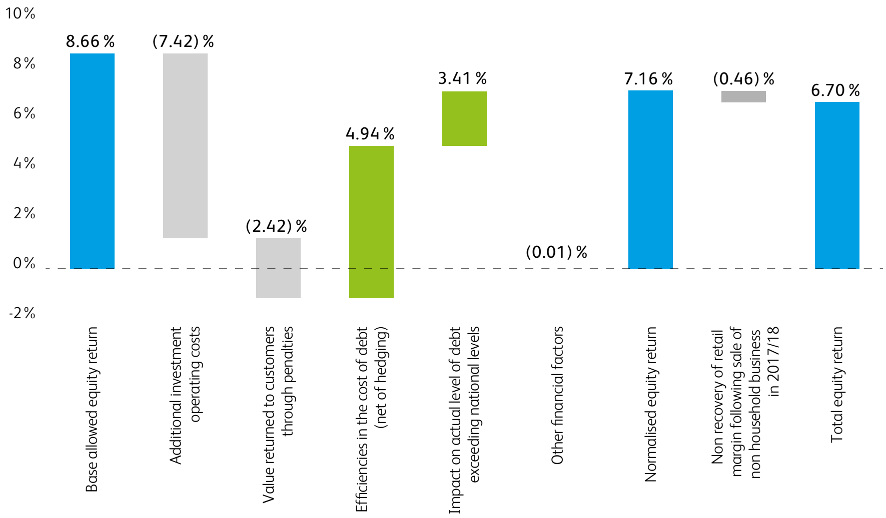
- A £16.3 million increase in power costs as a result of a 15% increase in the unit price, coupled with higher water treatment volumes during the hot and dry summer. We had to bring additional (and more operationally expensive) sites online over the summer to deal with the demand.
- An increase in employee costs of £45.0 million, reflecting the increased internal resource to improve our service to customers, as well as annual pay inflation of £5.3 million. In addition, £9.0 million can be attributed to Guaranteed Minimum Pensions (GMP). GMP is discussed in more detail on page 27.
- Increase in spend to find and fix leaks in order to get our leakage performance back on track.
- Additional costs associated with preparing and assuring our business plan submissions. We incur this every five years.
- A £19.1 million increase in depreciation and amortisation, as we continue with our significant investment programme.

Financial flows

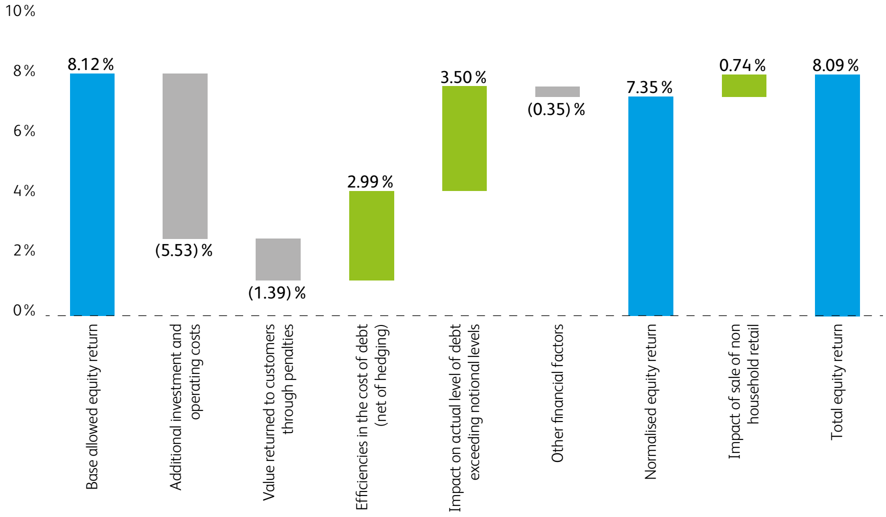
Breakdown of 2018/19 actual return

Our revenues are set according to a very detailed regulatory process which allows for the recovery of efficient costs plus a return for investors in the business. The actual return to external shareholders in any period is therefore determined by these allowed revenues, and by the degree to which actual costs are higher or lower than the efficient levels allowed. Other key factors affecting returns are the level of rewards or

Breakdown of 2018/19 actual return



Breakdown of actual return for the past four years



penalties, and the amount of equity invested by the external shareholders. The analysis on page 25 refers to the Company and is only based on the regulatory accounts.

In order to provide a consistent metric capable of being used as a basis of comparison, we are presenting returns based on a measure of "regulatory equity" that has been developed with Ofwat. Here, the value of equity is calculated as the Regulatory Capital Value ("RCV") less the amount of net debt in the regulated business. Directly observable share prices of listed companies in the sector show that market values of equity have historically been higher than this "regulatory equity" value, but this is not factored in to this analysis.

In the year to 31 March 2019, the allowed level of return for external shareholders for a company with the notional capital structure (i.e. debt equal to 62.5% of RCV) was 8.66%. This return includes 3.06% of RCV growth arising from RPI inflation.

Total external shareholder return on an equivalent basis was 7.16% (before the impact arising from the sale of the retail non-household business in 2017/18), which is 1.50% below the allowed base level. As the retail non-household business was sold, we no longer recover the corresponding retail margin which was awarded in the PR14 Final Determination. This results in a 0.46% reduction in return, giving an overall return of 6.70%.

Outperformance in this financial year has been driven primarily by our cost of debt being lower than the allowed level, and by the level of debt being higher than the "notional" level, giving higher returns of 4.94% and 3.41%, respectively. Taking the cost of debt first, there are two drivers:

- Firstly, lower underlying cost of debt than the allowance, before considering the effects of inflation; and
- Secondly, because around half of our debt is fixed rate, its cost does not increase with inflation.

When it comes to overall gearing (i.e. the ratio of debt to RCV), levels above the regulatory assumption of 62.5% amplify the percentage return to external shareholders, because debt is less expensive than equity. Another impact of higher gearing levels is that it increases the volatility of external shareholder returns, which become proportionately more sensitive to levels of out or under performance. Our average gearing level in 2018/19 was around 82%, which resulted in a 3.41% increase in overall shareholder returns.

We are responsible for financing our business as efficiently as possible. Our financing structure, the Whole Business Securitisation, offers additional protections to debt investors enabling us to have higher levels of debt without reducing our credit worthiness. For the avoidance of doubt, any additional risk associated with having a higher level of debt remains with our external shareholders, and is not transferred to customers.

Placing a number of the other factors in context, our total expenditure ("Totex") associated with investing in and operating the business was £170.9 million above our allowance for the year. Further, we are returning £59.8 million to customers through penalties.

Of the total regulatory return noted above, the vast majority (86%) was retained in the business, with the remainder distributed to cover financing costs elsewhere in the group. No dividends were paid to external shareholders.

Based on an average of the past four years, actual external shareholder return was lower by 0.77% than the allowed return, prior to the impact from the sale of the retail non-household business, as shown to the left. Operational underperformance (including penalties) outweighed the benefits from financial factors. The operational underperformance is mainly driven by the additional totex spend in excess of our allowance which reflects our commitment to prioritise customer interests through higher investment levels. The increase in financial outperformance over the period is mostly due to increases in inflation over the past four years.

Net (losses)/gains on financial instruments

We raise debt in a variety of currencies and use derivative contracts to manage the foreign exchange risk exposure on this debt along with the interest rate risk and inflation risk that we are exposed to. Fluctuations in external market variables such as changes in interest rates, inflation and foreign exchange rates do generate changes in the balance sheet value of these financial instruments and this

Chief Financial Officer's statement continued

impacts profit. We only use derivatives for risk management purposes and both the debt and derivative contracts are generally held until maturity, so there is no cash impact due to these changes. This year, we made a loss on financial instruments of £37.7 million (2018: gain of £40.9 million). The loss of £37.7 million this year was comprised of exchange losses on foreign currency denominated debt of £68.0 million due to a weakening in sterling, offset by gains arising on swaps of £64.5 million and a £34.2 million loss due to a cash flow hedge being transferred from equity.

Cash flow

Underlying net cash generated from operating activities for the year ended 31 March 2019 was £1,085.7 million, and therefore broadly consistent with £1,065.1 million generated in the previous year.

Capital expenditure

During the year, we invested a total of £1,188.7 million (31 March 2018: £1,148.8 million) in our assets. The total investment by area is summarised, by area, in the table below.

Area	Non infra-structure	Infra-structure	Total
Water (£m)	304.5	268.1	572.6
Waste (£m)	377.7	238.4	616.1
Total (£m)	682.2	506.5	1,188.7

Key projects within the above capital expenditure include:

- £52.9 million on our metering programme (water)
- £92.2 million on connecting our network to the Thames Tideway Tunnel
- £29.6 million on a customer relationship management and billing system
- £26.9 million on our scheme aimed to reduce the risk of flooding (waste)
- £31.9 million on upgrading our sewage treatment works at Deephams (waste)

Bad debt

Bad debt arises predominantly from those who choose not to pay their bill, despite being financially able to, as opposed to those who cannot pay. This year we had an overall increase in bad debt cost of £5.1 million to £62.6 million (2018: £57.5 million). This is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £33.4 million, which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £29.2 million, which is shown within operating expenses. The overall increase in bad debt is attributed to increased risk from debt relating to non-household bills pre-market opening.

Dividends

During the year, we paid dividends of £60.0 million (2018: £55.0 million) to our immediate parent company, Thames Water Utilities Holdings Limited ("TWUHL"), with all of the current year dividends being applied to servicing debt obligations and working capital requirements of other companies within the Kemble Water Group.

No dividends were paid by the Kemble Water Holdings Group to external shareholders for 2018/19 in line with our commitment to withhold paying an external dividend until 2020/21. This commitment will continue to help us increase our equity buffer[1] and broaden financial resilience, to improve our service to customers.

1 Equity buffer is defined as the regulatory capital value less net debt.

Taxation

In 2018/19, we paid over £211 million in business rates, national insurance contributions, PAYE and other taxes. We incurred £147 million directly, mainly through business rates, and collected £64 million on behalf of our employees. As in prior years, we have not paid any corporation tax to HMRC primarily because of interest costs and tax relief for our capital investment programme.

The 2018/19 corporation tax charge of £8.9 million consists of a deferred tax charge of £4.6 million and a current tax charge of £4.3 million, the latter of which arises because Thames Water Utilities Limited pays for tax losses from other Group companies, which should ultimately benefit customers through lower tax funding in future regulatory settlements. The overall tax charge is lower than the prior year due to the decrease in accounting profits.

Credit ratings

In May 2018, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") but placed us on negative outlook (31 March 2018: negative outlook). This continues to align with our ratings of A3 and Baa3 for our Class A and Class B debt respectively. The change to negative outlook reflects a change in assessment of the stability and predictability of the UK water regulatory regime rather than a reflection of Thames Water specifically. In July 2018, S&P re-affirmed our credit rating of BBB+ and BBB- (31 March 2018: BBB+ & BBB-) in respect of our Class A debt and our Class B debt respectively and placed us on negative outlook (31 March 2018: stable outlook). We retain credit ratings that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

Financing arrangements

In anticipation of our 2020 to 2025 investment programme and being financially prudent, we have increased the size of our RCF from £950 million to around £1.65 billion during the year, with a five year term (and two one-year extension options). This upsizing was strongly supported by our relationship bank group. Through Kemble Water Finance Limited, a holding company within the wider group, around £650 million of new Sterling debt was committed in November 2018 (of which £310.0 million was drawn at 31 March 2019 and £340.0 million in April 2019), using the bank and private placement markets. £400 million of this was used to refinance the £400 million bond guaranteed by Kemble Water Finance Limited which was repaid in April 2019. The remaining amount, roughly £250 million, was used to de-gear Thames Water Utilities Limited in April 2019. This is in line with the de-gearing plan outlined in our business plan.

Borrowings carrying value – £m

Financing our investment

As we continue to invest heavily in the business, our statutory net debt (as defined on page 178) has increased by £638.3 million to £11,619.8 million (2018: £10,981.5 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £568.9 million to £14,273.7 million (2018: £13,704.8 million), meaning that overall gearing (on a covenant basis*), as at March 2019 before the £250 million cash injection in April 2019, was 82.2% (2018: 81.3%), below the mandated maximum of 95.0%. Additionally, our PMICR (see PMICR definition on page 178) in 2018/19 was 1.6x (2018: 1.6x) and was above the mandated minimum of 1.1x.

We continue to borrow through external public and private debt capital markets and through financial institutions across a diverse range of currencies, geographies and sources. The past year has seen us continue to focus on increasing diversity including the issue of a further £227 million equivalent US Private Placement which was priced in January and funded in April 2019 along with a number of new bilateral loans. The overall debt mix is shown on page 26, excluding the impact of intercompany swaps:

* Ratio of covenant net debt to Regulatory Capital Value ("RCV") defined on page 304.

Borrowings carrying value – £m

The associated net finance expense has decreased by £44.7 million to £364.7 million (2018: £409.4 million), which has been driven by the lower RPI accretion on borrowings. Some of our interest expense is incurred in relation to borrowings raised to deliver major capital projects.

Under IFRS accounting rules we are able to capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs.

Capitalised interest costs were £109.3 million this year (2018: £100.7 million).

Pensions

We operate three pension schemes for our employees – two defined benefit schemes (Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS")) and one defined contribution scheme. During the year ended 31 March 2019, we contributed £11.0 million (31 March 2018: £8.1 million) to our defined contribution scheme.

Our defined benefit scheme accounting valuation has been updated to 31 March 2019 on our behalf by independent consulting actuaries, Hymans Robertson LLP.

The total net retirement benefit obligation for the two schemes as at 31 March 2019 was £293.0 million (restated 2018: £250.2 million[1]), which includes a pension deficit of £338.8 million (2018: £300.8 million) for the TWPS scheme, offset by a pension surplus of £45.8 million (restated 2018: £50.6 million) for the TWMIPS scheme and we have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments.

The increase in the deficit is mostly driven by a change in actuarial assumptions, specifically a decrease in the discount rate for both schemes, resulting in an actuarial loss. In addition to this, we recognised a past service cost in the current year income statement of £9.0 million relating to Guaranteed Minimum Pensions ("GMP") which has been discussed in more detail in the GMP section.

As part of the last triennial valuation, dated 21 March 2016, a recovery plan to reduce the deficit to zero was agreed with the trustees. The Company has agreed to make deficit repair payments of £22.0 million (indexed) per annum until 2027. The triennial valuation dated 31 March 2019 will be undertaken by Aon (the schemes' actuaries). The deadline for completing this is 30 June 2020, but is expected to be performed earlier.

1 The net deficit on our defined benefit schemes for 31 March 2018 was restated following the recognition of the previously unrecognised TWMIPS pensions scheme surplus which is discussed in more detail below.

Recognition of pension surplus (TWMIPS scheme)

In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised.

Our retirement benefit obligations consisted of a deficit within the TWPS scheme and a restricted surplus[1] in the TWMIPS scheme.

Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders.

The Trust Deed provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind up once all benefits have been distributed and any surplus taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. We have therefore restated our pension figure for the previous year, such that our net pension deficit reduced from £300.8 million to £250.2 million following the recognition of the £50.6 million TWMIPS surplus, at 31 March 2018.

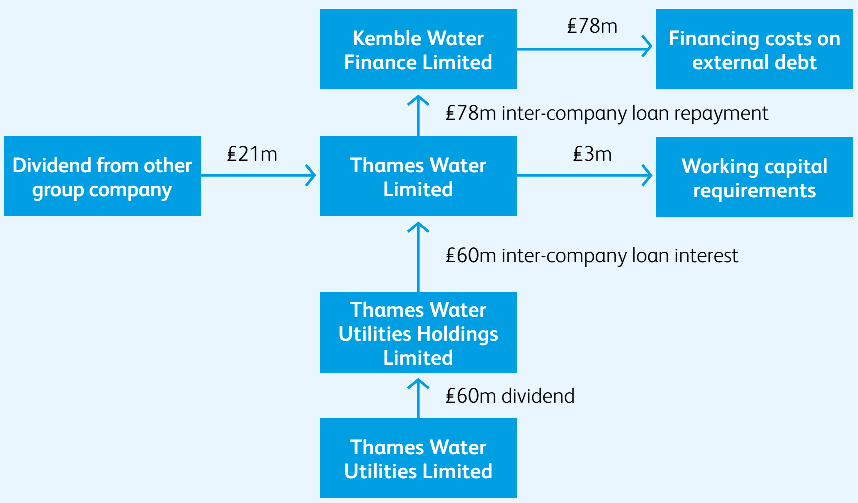
Guaranteed Minimum Pensions

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. Guaranteed Minimum Pensions ("GMPs") built up in our pension schemes between their commencement and 5 April 1997. They form a part of the overall pension and needed to be provided before April 1997 as a condition of our opting out of the earnings related part of the state pension, as a result of which Thames Water Utilities Limited and the pension scheme members paid reduced rate national insurance contributions up to April 2016. GMPs are subject to increase in payment and in deferment at different rates from the increases to benefits in excess of GMP.

Even though state pension ages are now the same for men and women, GMPs for women are generally higher than those for men. Despite the equalisation of state pension ages, GMPs are still required to come into payment on the 60th birthday of women and the 65th birthday for men. As such, GMPs are unequal between men and women of identical ages, salary histories and periods of service. The Lloyds case requires this inequality to be remedied and has given rise to additional pension liabilities for the Group.

Our actuaries, Hymans Robertson LLP have factored in the cost of equalisation into the accounting valuation as at 31 March 2019. This has resulted in a past service cost recognised in the 2018/19 income statement of £6.8 million for TWPS and £2.2 million for TWMIPS, a total of £9.0 million across the two schemes.

Dividends



Brandon Rennet
Chief Financial Officer
27 June 2019

Market drivers

Responding to a changing market

Affordability and customer expectations

Brexit
is leading to nervousness about the cost of living

16%
of our customers are 65 and over

4.5%
of London's labour force are unemployed

2.7%
rise in costs, on average, between 2006 and 2018, for the poorest 10% of households compared to 2.3% for the richest 10%, according to the Office for National Statistics

16%
of working age adults have a disability

Customer – "There is an expectation that you switch on the tap and water always runs"

Customer – "I think Thames Water should be prioritising the forward planning of infrastructure"

Link to strategic priorities

Read more on our strategy on **page 50.**

Read more on our risks on **page 41.**

Climate change and environmental protection

Summer 2018
was the joint hottest on record. As the impact of climate change intensifies, weather patterns will become increasingly volatile. The annual chance of having a 2018 summer has already increased to 10%-20% due to climate change, and could be as high as 50% by 2050

1.5°C
expected global temperature rise between 2030 and 2052 if emissions continue to increase at the current rate

c.62%
of our pipes are over 60 years old, increasing vulnerability to changes in temperature

2.5 million
species live in the Thames Valley area

21%
of the UK's chalk streams are in our region

150
plastic water bottles, on average, are used per person each year in the UK

Link to strategic priorities

Read more on our strategy on **page 50.**

Read more on our risks on **page 39.**

Population growth and urbanisation

360 Ml/d
predicted water shortfall by 2045, if we don't work with our customers to take action

11.8 million
expected number of water customers in our region by 2045, an increase of two million. London is projected to be the fastest growing region in England until 2026

1 million
new homes expected as part of the proposed development of the Oxford/ Cambridge corridor by 2050, encouraging a population increase of over 1.9 million, and having an impact on our area

£90 million per year
Costs associated with working in London could increase by this much

31 million
tourists visit London every year

22,000 hectares
of green space across the UK was converted to artificial surfaces in just six years according to a University of Leicester study

Link to strategic priorities

Read more on our strategy on **page 54.**

Read more on our risks on **page 40.**

Our five strategic priorities:

Brilliant customer engagement | Data to insight to action | Resilient systems and assets | Environmental protection and enhancement | A collaborative and capable team

Market and regulatory changes

"Back in balance"

In this paper Ofwat has set out its expectations for companies in looking to continue to encourage them to strike the right balance between the interests of customers and investors when deciding on how to finance their business including targeting an appropriate level of gearing

Nationalisation

Ongoing parliamentary debate about the future structure of the water sector, including the potential for renationalisation

Governance

Introduction of 2018 Corporate Governance code, applicable for reporting year 2019/20

Brexit

Uncertainty could see a rise in costs

Link to strategic priorities

Read more on our strategy on **page 30.**

Read more on our risks on **page 39.**

Technology

86%

of adults use the internet daily, up from 35% in 2006

4 out of 5

customers have a smartphone – in a 21st century world, customers want information in real time and they want to be able to self-serve

45 million

social media users in the UK

13 million

Twitter users in the UK

Link to strategic priorities

Read more on our strategy on **page 52.**

Read more on our risks on **page 43.**

Workforce

15%

of our workforce is over the age of 55

4%

of our contractor workforce is European. Brexit uncertainty could see a migration of workers away from our region

89%

of people considered flexible working to be a key motivator to their productivity according to a 2017 YouGov survey of British businesses and employees

1 in 4

people in the UK will experience a mental health problem each year whilst, in England, 1 in 6 report experiencing a common mental health problem, such as anxiety or depression, in any given week

1.2%

Real-terms increase in gross weekly earnings for full-time employees in 2018, compared with 2017

35%

of girls compared to 94% of boys choose to study maths, physics, computing or a technical vocational qualification after the age of 16

Link to strategic priorities

Read more on our strategy on **page 58.**

Read more on our risks on **page 41.**

Strategy overview

Here for you, in a changing world

We wouldn't exist without our customers, which is why their voice was the driving force behind the creation of our strategy. See the key areas of our strategy below.

Our business vision

Our purpose

Our strategic priorities

Brilliant customer engagement

As active participants in the water cycle, it is essential our customers feel we are engaging with them in the right way, on their terms, and that we're making a positive connection in every interaction. If we do this brilliantly we create lifelong advocates

Find out more on **page 50**

Data to insight to action

To make smarter business decisions and deliver better customer outcomes, we will strengthen the principle of turning data into information and insight, to drive our actions, across all areas

Find out more on **page 52**

Our short-term priorities

Here for you, in a changing world

Building a better future for our customers, our region and our planet

Resilient systems and assets

Customers have told us they expect us to be more resilient in the future. Increasing and sustaining resilience requires us to take a long-term perspective on investment and operational performance across all cycles of the business

Find out more on **page 54**

Environmental protection and enhancement

We rely heavily on the environment for the provision of our services. We are passionate about being both responsible custodians of the water cycle and the environment

Find out more on **page 56**

A collaborative and capable team

To deliver our vision for our customers, there are critical skill sets and characteristics we need to nurture and strengthen within our teams. We also need to work collaboratively with our supply partners and ensure alignment with our customer outcomes

Find out more on **page 58**

Drive cost efficiency

Successful transition of customers to new customer relationship management and billing platform

Reduce leakage to 606 Ml/d

Reduce complaints by 20 %

Mobilise our plan for 2020 to 2025

Our business model

Creating and sustaining long-term value

Our inputs

Our people
Our employees, suppliers and their know-how

6,633

people are directly employed by us and we work in partnership with many more

Financial
Revenue and expenditure

£2.1 billion

in revenue in 2018/19

£2.3 billion

expenditure on investment and operations

Water
Abstracted from rivers and aquifers for treatment and supply

2.7 billion litres

of high quality drinking water supplied every day to our customers

Wastewater
Collected, treated and safely returned to the water cycle and used to generate energy to power our operations and reduce energy costs

4.4 billion litres

of wastewater treated at our water recycling centres every day

Our land and property
Needed to collect, treat and return water to the environment, and also rich in wildlife and recreational opportunities

97

water treatment works

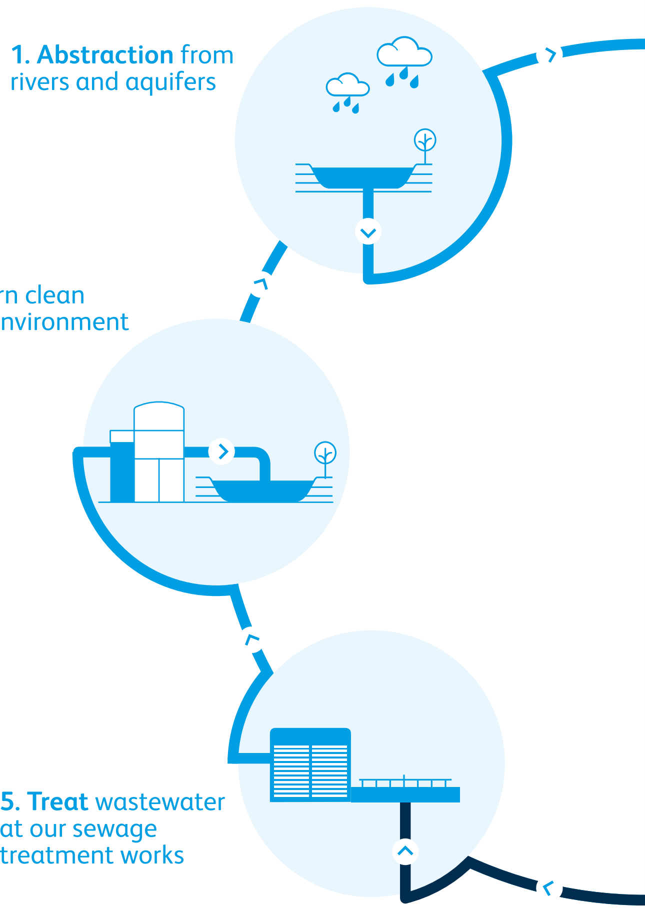
354

sewage treatment works

The value we create

We provide clean and safe drinking water, and environmentally responsible wastewater treatment, to our customers every day.

We look after over 15 million customers. Our service is one of the building blocks of a healthy and prosperous society, both now and in the future. What we do is essential, and the way we do it is incredibly important.



How we generate revenue
We collect revenue from our customers for the provision of our essential services. Our current average annual combined household bill is £398 per year, the third lowest in England and Wales. In a monopoly sector like the water industry it's our economic regulator, Ofwat, which provides an alternative to competition, driving performance and delivery, and every five years sets limits on the prices we can charge.

Underpinned by our nine sustainability themes

Water, a precious resource

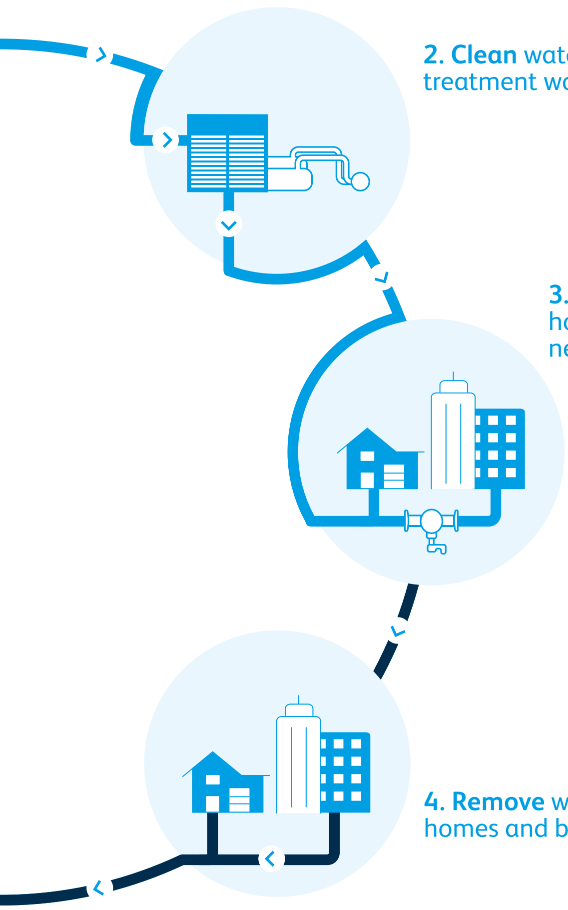
Providing sustainable drainage

Mitigating climate change

Delivering efficient operations

Find out more on **page 78**

For more details on how we contribute to the circular economy see **page 84**



2. Clean water at our treatment works

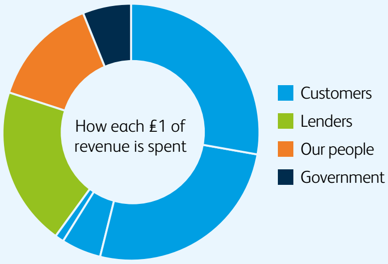
3. Deliver directly to customers' homes and businesses via our network of pipes

4. Remove wastewater from homes and businesses

Reinvesting for the long term

Over the past 15 years, we've invested £15 billion in our network. Our 2018/19 profits, are being reinvested into the business.

The value we share



61p Customers (and suppliers)

27p – Operational expenditure
To provide our essential services and improve our service to customers

28p – Investment in our infrastructure
To ensure a resilient network today, and for future generations

5p – Energy to power operations
To keep our energy costs down, we self-generate electricity

17p Lenders

By borrowing money at efficient rates, we're able to continue investing heavily in our infrastructure while keeping customer bills as low as we can

16p Our people

To deliver essential services for our customers and protect the environment

6p Government

We paid over £211 million in business rates, PAYE and national insurance contributions in 2018/19

We have not paid any corporation tax, primarily due to tax deductions for our interest payments and because of heavy investment in our network, for which we receive tax relief under the Government's "capital allowances" regime

1p net profit which is reinvested

External shareholders

Our external shareholders will not receive a dividend until the start of the next regulatory period, so the money can be reinvested in the business to secure a better future

Climate change adaptation | **Sustainable and safe workforce** | **Long-term sustainable investment** | **Ensuring responsible operations** | **Enhancing customer inclusion**

Risk management

Managing our risks and opportunities

We recognise that risk is inherent in our business. Identification, understanding, evaluation and response to risks we face are fundamental to the effective development and delivery of our strategic priorities to ensure longer term viability and resilience.

Introduction

The aim of risk management is not to eliminate risk completely from business activities, but to ensure that every effort is made to manage risk appropriately to maximise potential opportunities, minimise the adverse effects of risk and increase our ability to effectively deliver value to our customers, people, environment, stakeholders and shareholders.

Our approach to risk over the course of 2018/19 has seen a maintained equilibrium in our risk position. In 2019/20, we anticipate the risk landscape continuing to be challenging and complex in both our internal and external environment.

Risk culture

We encourage an open and accountable culture, promoted by our experienced leadership team. This culture is set by the Board in the way it conducts Board and Committee meetings and cascades through the organisation enabling the same culture for risk management, which continues to form an integral part of our activities. This enables the business to feel free to raise risks, ensure that information is communicated and for timely consideration of risk at appropriate levels of the business. The Executive Team meets quarterly to consider risk and the risk environment, including potential impact/s to the business, meaning they are ideally placed to notice any concerning changes to this profile.

Appetite

During 2018/19, the Executive Team reviewed our inherent risk universe and confirmed our areas of Principal Risk and Uncertainties. Following this review, we confirmed our 12 areas of principal risk, separated into four categories: strategic, operational, compliance and financial. The principal risks have been used as the basis for the adverse assumptions and risk scenarios in the Long Term Viability Statement disclosed on pages 45–49.

Our risk appetite model continues to be defined and aligned to the principal risks, and validated by the Audit, Risk and Reporting Committee ("ARRC") and Board, for the business to operate within and to base meaningful business decisions upon.

Resilience

The ability of our governance systems and assurance processes to manage business disruption, and anticipate trends and variability in external and internal factors that may affect our services, allows us to demonstrate appropriate corporate resilience. As such, our risk management framework is a cornerstone of developing our corporate resilience as part of a clear strategic direction supported by customers, employees and stakeholders.

Catastrophic loss

To move towards a resilience model for the business to operate within, the business seeks greater visibility on management of our high impact, low likelihood risks (catastrophic loss risk) that could result in a major health, safety or environmental event, fundamental change to our business model or operations, or financial concern. Preventing, preparing and responding to catastrophic loss events in a considered manner and ensuring that when events do occur, the business emerges more resilient from the experience is a critical activity; however, the costs of risk mitigation will need to be considered to ensure any measures are proportionate to the risk faced. Catastrophic loss risks are assessed annually through the risk management framework and will also strengthen the severe but plausible shocks and scenarios used in building the Long Term Viability Statement (see pages 45–49).

Risk management framework

Our risk management process is developed to align with the Risk Management International Standard, ISO 31000, which aids our compliance with the Financial Reporting Council's UK Corporate Governance Code guidance on risk management. Risks are prioritised and reported, according to our defined risk scoring criteria, for oversight at the appropriate level of management. These reviews form the basis for our annual principal risks and uncertainties disclosure. The effectiveness of our overall risk management framework is evaluated by the Audit, Risk and Reporting Committee during the annual control self-assessment review (see page 12).

During 2018/19 we continued to review, update and adapt the risk management framework to clarify, simplify and standardise how risk is currently managed and reported across the business.

Our key focus areas over the year were:

- **Risk assessment criteria** – reviewed and refreshed our impact and likelihood categories to ensure they are fit for purpose against the current operating environment;
- **Catastrophic loss risks** – formalised a process for the identification, response and effectiveness of business continuity to high impact, low likelihood scenarios;
- **Policy framework** – developed a revised single base point for the governance of our business; and
- **Control framework** – developed a consistent approach to the identification, design and testing of key controls within our operations.

Key priorities in 2019/20 to further develop our risk management framework:

- **Risk policy, standard & guidelines** – review key responsibilities and overall approach to risk management in line with the current operating environment;
- **Long-term sustainability risk** – formalise a process for the identification, assessment and response to long-term vulnerabilities to the future business;
- **Key risk indicators (KRIs)** – implement KRIs against the agreed risk appetite to assist with the decision making process and performance management; and
- **Delegated authority** – revise the system of delegated authority framework for the new business structure.

Changes from 2017/18 and realised risks

The most notable movements across the Company risk register are associated with movement in the political and regulatory landscape, and our operational focus to improve resilience and network integrity.

Following review, our principal risks as disclosed in 2017/18 remain largely unchanged. The combination, however, of a number of individual risks identified in 2017/18 impacted our assessment of the current environment for the business.

Principal risks

Strategic risks: In general, our strategic risk profile was focused in our business plan process and with the uncertainty caused by both Brexit and the potential for a future Labour Government renationalisation programme for the industry.

Operational risks: Our operational asset and customer service performance continued to be a risk focus alongside continued attention towards the safety and security of customers, employees and the environment.

Compliance risks: Our compliance risk profile was stable during the year as we managed a number of key obligations and legislative requirements.

Financial risks: We maintained adequate balance sheet and financing levels to meet our investment and operational demands.

The following material risks were realised within our business:

- **Political, Regulatory and Economic Environment** – Ofwat placed our PR19 business plan in the "Significant Scrutiny" category, primarily attributed to significant shortcomings in three predefined areas being tested. The business has responded by addressing Ofwat's concerns as part of the PR19 business plan resubmission process.

Special interest risks

Special interest risks are those that may have a material impact on the financial results, reputation or strategy of the business in the year ahead. While these areas form part of our Principal Risks, further details of their specific nature are provided below.

- **Brexit**
  We are faced with a number of potential short, medium and long-term consequences of the UK's decision to exit the European Union. Assurance over Brexit uncertainty has been split into a short-term tactical team that manages the immediate operational, customer and supply chain vulnerabilities at the point of exit and also participates in cross-industry working groups to find best practice approaches to shared Brexit exposures, and a medium to long-term working group that assesses Brexit-related risks on an ongoing basis for the business. Representatives from the business and specific functions input into each stream where appropriate. Brexit uncertainty represents risks for the evolution of our markets. Assumptions underlying our business plan and strategy may change or prove to be incorrect, affecting investment in current or new assets and markets (see side bar for more information about Brexit risk).

- **Renationalisation**
  There is potential for renationalisation of water companies by the UK Labour Party. Should the UK Labour Party come into power, the timing and routes for water company renationalisation generally are currently uncertain, and therefore the impact on our business remains unclear. Renationalisation options include acquisition of the business, the transfer of assets to "regional communities" and regulatory change. The Government should pay fair compensation for the Company's property which will be determined at the time, and which could be calculated in a number of different ways.

- **Extreme weather**
  Much of what we do is affected by the weather. It has an impact on the operation of the water and wastewater networks, and the amount of water used by customers. The weather is an important contributor to business performance that is strongly interconnected to identified principal risks such as customer service, asset management and performance, and health safety, environment and security. We have crisis management and business continuity plans to deal with severe weather events that can damage the integrity of our infrastructure, and these were implemented in response to the 2018 "freeze thaw". We monitor short- and long-term weather conditions so we can manage and respond to conditions for the benefit of customers and to support the fulfilment of our business objectives. This includes:

  - Preparing for how extreme weather, such as low or excess rainfall, could impact the resilience of our water and wastewater assets that our customers rely on;
  - Predicting how forecast temperatures might affect infrastructure, and whether fluctuations in temperature require a response;
  - Forecasting the temperature to inform how water demand is affected, thereby improving performance; and
  - Assessing how rainfall patterns could impact our water and wastewater network resilience.

Case Study: Preparations for Brexit and a no-deal scenario

Brexit presents significant uncertainties across our business and is further complicated by the lack of clarity over the type of Brexit anticipated.

Following cross-industry, regulatory and governmental discussions we reviewed our systems against the potential for consequences in our operations and support functions if steps aren't taken to mitigate effects on our ability to supply services to our customers and stakeholders.

Risk identification and assessment:

- **Short-term** – availability of critical chemicals and parts for provision of water and wastewater services, and business planning for demand and emergency works.
- **Medium to long-term** – regulatory framework and environment; existing and future workforce availability, attraction and retention; supply chain management; and, credit and liquidity.

Risk response:

- Assessment of current level of operational and supply chain preparedness and resilience to short-term impacts; and
- Scenario exercises developed to improve operational and customer incident response plans.

Risk monitoring:

- Short-term and medium to long-term working groups in place; and
- Formal engagement with industry, regulators and government.

Risk management continued

Overview of control and audit functions

Our system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Our management of risk supports this through a number of key company-level internal controls and responses:

- **Business planning, budgeting and forecasting** – reviewed by the Executive team and approved by the Board. These activities support resilient operations and sustainable and robust finances. Our business plan demonstrates how we are going to deliver our strategy, our priorities and what we believe is important to focus on and invest in;
- **Performance reporting** – senior management, Executive team, Board and shareholders receive monthly management reports, including an overview of health, safety, environment and security, operational, financial and regulatory commitments' performance;
- **System of delegated authority** – delegated levels of decision making authority are reviewed and approved by the Board;
- **Insurance** – insurance programme and insurance team in place. Board reviews the strategic approach being taken to level and type of cover across our operation;
- **Company policies, standards, guidelines and procedures** – governance documentation is reviewed and is intended to manage our inherent risk;
- **Training and awareness** – programme in place for key operational aspects such as health and safety, data protection, competition, honest and ethical behaviour and cyber security; and
- **Code of conduct and Whistleblower hotline** – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team, and brought to Executive and Non-Executive attention through formal reporting on cases and conclusions.

Our Internal Audit team developed a plan for the year 2018/19 that was approved and subsequently monitored by the ARRC throughout the year. Reviews completed during the year include:

- Billing system implementation project governance;
- IT asset maintenance;
- Governance and reporting over our alliances; and
- Water quality.

Governance and oversight

The Board, assisted by the ARRC, oversees the risk framework and ensures alignment of risk management objectives with the strategies and objectives of the Company, validates risk status and mitigation plans and verifies the Long Term Viability Statement process to maintain a sound system of risk management and internal control. This includes the determination of the nature and extent of the principal risks we are prepared to accept to achieve our strategic priorities, and for ensuring that an appropriate culture has been embedded throughout the organisation.

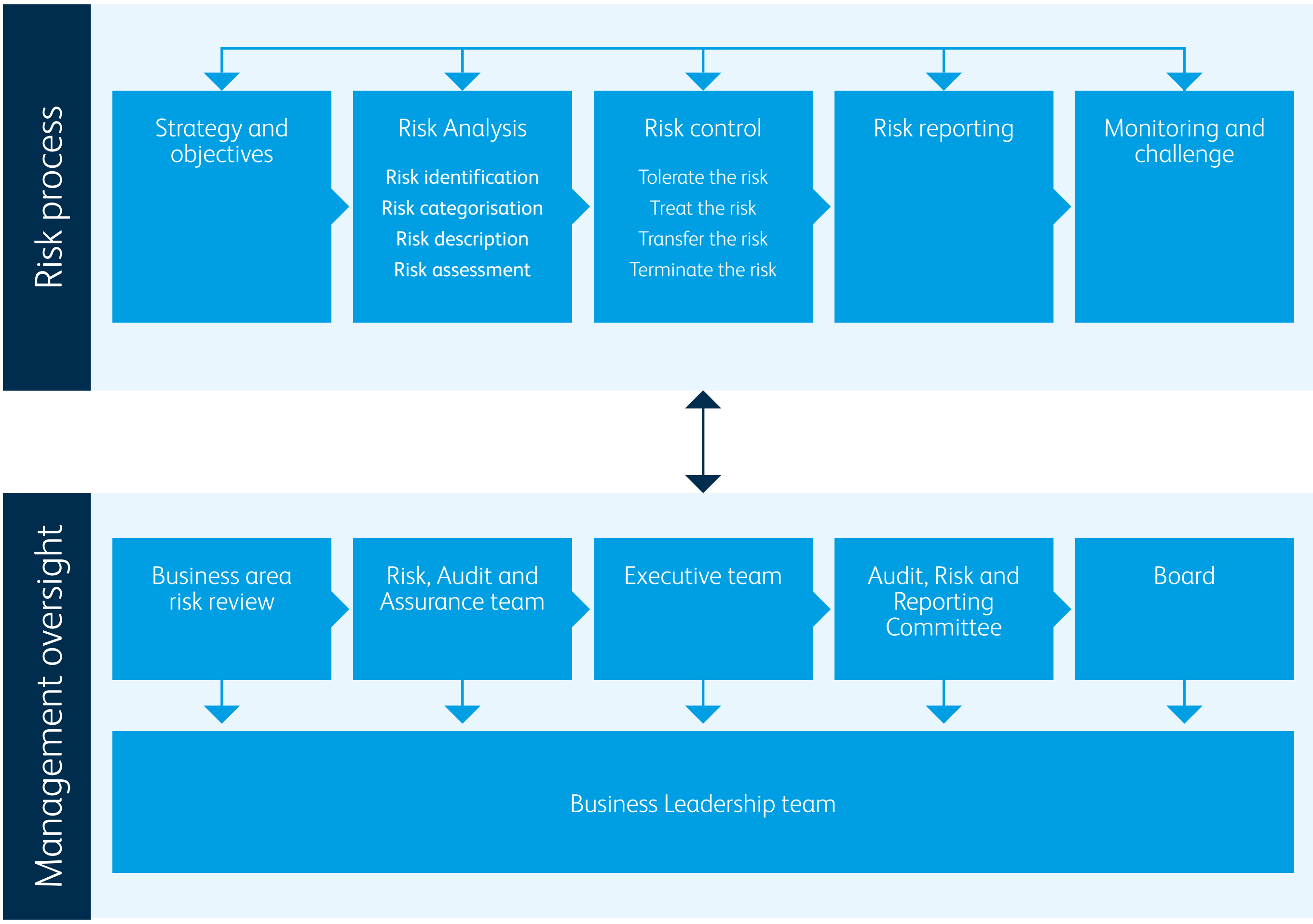
The work of the Board and its Committees is underpinned by delegations of authority and policies and procedures covering key areas of our operation.

Roles and responsibilities

Day-to-day risk management is undertaken by a dedicated central team that coordinates the risk management process with an established network of risk champions embedded in each business area. The risk champions are senior business representatives who take a lead role in engaging local management to identify, agree and update risk information on a regular basis. This risk management structure works across the business to provide risk information for management oversight.

The diagram below shows some of the key elements of our framework by which our operations are conducted, and which, combined, provide the overall arrangements for implementing, monitoring, reviewing, and continually improving our system of risk management and internal control. We continue to embed a "line of defence" model to provide assurance throughout the business to this framework. Further details of our "lines of defence" model are found on the page opposite.

Risk process and management oversight



Risk deep dives also take place at the ARRC meetings throughout the year. In 2018/19, some of the risks covered included:

Principal risk	Deep dive considered by the ARRC
Technology systems and security	• Cyber security
Legal and regulatory compliance	• Mandatory training requirements • Data Protection Act • Non-household compliance with market rules
Credit and liquidity	• Non-household revenue process
Business planning, forecasting and execution	• Catastrophic loss risk process

Principal risks and uncertainties

Key:

Climate improving ↗

Climate stable =

Climate deteriorating ↘

Our five strategic priorities:

- Brilliant customer engagement
- Data to insight to action
- Resilient systems and assets
- Environmental protection and enhancement
- A collaborative and capable team

Strategic risks

Climate and societal

Strategic execution, customer behaviour and demand can change due to external influences outside of our control, such as population growth, climate change, long-term weather patterns and new technologies.

Link to strategic priorities:

Risk climate: =

Key drivers
- Climate change and long-term weather patterns;
- Adverse and unseasonal weather events; and
- Population growth.

Overarching Vulnerabilities
- Disruptive technologies;
- Network resilience to long-term weather patterns and climate change;
- Future supply/demand requirements.

Mitigation
- Long-term investment in the network and assets to strengthen customer relationships, secure future water requirements, develop resilience and reduce the impact of adverse weather patterns and events, and population growth;
- Work to manage the unavoidable impacts of climate change to the business, focus on customer demand reduction activity, and reduce carbon and greenhouse gas emissions; and
- Continue to find solutions that balance competing environmental, social and economic demands in a more sustainable way through the five-year business plan.

Potential business impact
Long-term. Customer Service; Financial; Regulatory; Operations; Reputation.

Opportunity
Increase operational effectiveness by recognising and managing external trends.

Executive responsibility
Richard Aylard – Sustainability Director

Role of the Executive team
- Monitored the delivery of plans and the appropriate allocation of resources to long-term strategic drivers; and
- Regularly debated capital investment and any challenges and opportunities.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Continue to regularly review our forecast planning and investment programme.

Political, regulatory and economic environment

The general economic outlook and political and regulatory oversight could impose significant obligations, operational changes, increases in the estimated cost to fulfil obligations and assumptions underlying estimates changing or proving incorrect, affecting investment in current or new assets and markets.

Link to strategic priorities:

Risk climate: ↘

Key drivers
- Adverse PR19 determination;
- Significant amendment to industry economic regulation or industry renationalisation; and
- Uncertainty around the UK leaving the European Union (Brexit).

Overarching vulnerabilities
- Complex regulatory and political environment;
- PR19 significant scrutiny; and
- Defining mid to long-term Brexit consequences.

Mitigation
- Engage with regulators to find a better approach to intervention that agrees clear targets against which progress can be demonstrated;
- Engage with political parties with the aim of moving towards water policy differences converging rather than polarising; and
- Review effect on energy costs, water markets, investment and financial markets from the process of the UK leaving the EU.

Potential business impact
Medium-term. Customer Service; Financial; Regulatory; Legal; Operations.

Opportunity
Support sustainable industry economic regulation and shape regulatory frameworks.

Executive responsibility
Nick Fincham – Strategy and Regulation Director

Role of the Executive team
- Monitored the preparations for our PR19 plan and re-submission and reviewed alignment to the published Ofwat methodology; and
- Reviewed potential impact of general economic conditions, external exposures to institutions and our capital structure against business requirements.

Movement in the period
- The inherent risk profile increased during 2018/19 following heightened political and regulatory scrutiny and the re-submission of our PR19 plan.

Looking forward
- Economic and market effects from the UK departure from the EU and potential for a further UK General Election as a result.

Principal risks and uncertainties continued

Trust and reputation

Future investor funding, regulatory requirements and stakeholder relationships are affected by our performance, transparency of operations and reputation, including that of senior management and the Executive team.

Link to strategic priorities:

Risk climate: =

Key drivers
- Incidence of water main bursts, network leakage and environmental pollution;
- Operational incident response;and Customer service performance and C-MeX targets.

Overarching vulnerabilities
- Previous under-investment;
- Historic operational performance; and
- Current customer service performance.

Mitigation
- Increase transparency in financial reporting and engage with customer groups, political parties, regulators and other stakeholders to understand views and concerns;
- Customer service metrics and performance commitments regularly reviewed by the Executive team and Board; and
- Protect the most vulnerable households through initiatives to improve water efficiency or with financial advice and aid.

Potential business impact
Medium-term. Health and Safety; Environment; Customer Service; Reputation; Financial; Regulatory; Legal; Operations.

Opportunity
Enhance our standing as a trusted and responsible utility company.

Executive responsibility
Richard Aylard – Sustainability Director

Role of the Executive team
- Monitor progress of business and regulatory metrics and performance commitments; and
- Provide Executive oversight to event response, crisis management and business continuity plans.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Continued investment through the business plan in our business and infrastructure to improve the service given to customers.

Business planning, forecasting and execution

Robust processes for business planning and performance, accurate forecasting and reporting, and change management are required for effective management decision, strategic delivery and performance commitments.

Link to strategic priorities:

Risk Climate: =

Key Drivers
- Strategic business planning and price review process;
- Change management delivery;
- Transition from AMP6 to AMP7 delivery.

Overarching Vulnerabilities
- Complex regulatory environment;
- Volume of change management;
- Previous under-investment.

Mitigation
- Performance and financial management reporting process with an external audit provision and internal audit schedule;
- Board, ARRC and Executive Team oversight and challenge;
- Dedicated delivery office, and change management, investment and business planning processes in place.

Potential business impact
Medium-term. Customer Service, Reputation, Financial; Regulatory; Operations

Opportunity
Maximise investment and deliver targets to meet stakeholder expectation

Executive responsibility
John Beaumont – Digital, Strategy and Transformation Director

Role of the Executive team
- Monitor the delivery of plans and the appropriate allocation of resources to long-term strategic drivers;
- Encourage improvements in data capability and quality, management reporting and assurance activity.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Continue to embed improved efficiency and customer advocacy.

Operational risks

Customer service

Unacceptable customer service levels, or the perception that we are failing to maintain and improve service quality will have a detrimental effect on customer satisfaction and complaints, and our performance commitments.

Link to strategic priorities:

Risk climate: =

Key drivers
- Short and long-term management of water supply;
- Customer service performance and C-MeX targets; and
- Billing system implementation.

Overarching vulnerabilities
- Replacement of legacy billing system;
- Historic network resilience and customer service; and
- Future supply/demand requirements.

Mitigation
- Incidents and events that arise are managed through Executive-led response teams with a dedicated field based customer facing representative team;
- Dedicated team provides focus on customer insight and satisfaction measurement;
- Cross-functional senior level task force to monitor and drive performance against improvement plans; and
- Engagement with the Customer Challenge Group (CCG) to provide independent challenge to our business and independent assurance to Ofwat on the quality and results of our customer engagement.

Potential business impact
Short-term. Customer Service; Reputation; Financial; Regulatory; Legal; Operations.

Opportunity
Enhance and consider the needs of our customers in our future plans.

Executive responsibility
Kelly Macfarlane – Customer Experience Director

Role of the Executive team
- Monitored progress and trends in customer satisfaction and complaint resolution; and
- Evaluated future customer service requirements and provisions as part of the PR19 business plan and resubmission process.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Implement a new customer relationship management and billing system and reduce complaint volumes by 50%.

People

Attraction, development, retention and succession of senior management and individuals with key skills are critical factors in the successful execution of our business operations and strategic initiatives.

Link to strategic priorities:

Risk climate: =

Key drivers
- Effective prioritisation and appropriate resourcing;
- Attract, retain and maintain capacity in key roles; and
- Uncertainty around the UK leaving the European Union (Brexit).

Overarching vulnerabilities
- Volume of change management;
- Defining mid to long-term Brexit consequences; and
- Resource competition from major capital infrastructure projects.

Mitigation
- People strategy based on culture and engagement, equality and wellbeing, talent development, training, reward and recognition;
- Regular review of organisational capability, reward strategies for key skills, talent management pipeline and learning and development programmes, which are externally benchmarked; and
- Strong relationship maintained with trade unions, to ensure that issues are openly discussed and addressed, to promote an environment of trust and honesty.

Potential business impact
Medium-term. Customer Service; Reputation; Operations.

Opportunity
Create sustainable expertise, capability and capacity to deliver our long-term strategy.

Executive responsibility
Janet Burr – HR Director

Role of the Executive team
- Monitor employee engagement performance and metrics; and
- Review organisational structure and future requirements to deliver the long-term strategy.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Monitor effect of Brexit on our workforce and third-party capacity.

Principal risks and uncertainties continued

Asset management and performance

The level of investment and maintenance, operational and weather issues affects the performance of assets with potential interruption to service, environmental breach, regulatory target failure or health and safety threats.

Link to strategic imperative:

Risk climate:

Key drivers
- Wholesale infrastructure asset health;
- Incidence of water main bursts, network leakage and environmental pollution; and
- Extreme weather events.

Overarching vulnerabilities
- Previous under-investment;
- Transition from AMP6 programme; and
- Efficiency in the supply chain.

Mitigation
- The Board takes a direct interest in ensuring the highest operational standards for significant assets;
- 2015-20 investment programme to maintain and improve network and asset resilience; and
- AMP7 programme of upgrades to infrastructure and assets.

Potential business impact
Medium-term. Health and Safety; Environment; Customer Service; Reputation; Financial; Regulatory; Legal; Operations.

Opportunity
Deliver resilient infrastructure that supports the future needs of our customers.

Executive responsibility
Steve Spencer – Chief Operating Officer

Role of the Executive team
- Monitor progress of business and regulatory metrics and performance commitments; and
- Monitor the delivery of plans and the appropriate allocation of resources to improve infrastructure.

Movement in the period
- The inherent risk profile increased during 2018/19 following a challenging regulatory environment and leakage target performance.

Looking forward
- Continue to improve and invest in enhancing asset performance and resilience.

Supply chain management

Operations rely on the resilience, availability and cost-effective quality of the supply chain for outsourced capability, goods, services and third party infrastructure.

Link to strategic imperative:

Risk climate:

Key drivers
- Third party outsourcing capabilities;
- Supply chain resilience; and
- Critical supplier contingency.

Overarching vulnerabilities
- Efficiency in the third party supply chain;
- Defining mid to long-term Brexit consequences; and
- Competition from major capital infrastructure projects.

Mitigation
- Executive-led Contracts Committee in place to review and approve contracts of significant value;
- Policy requirement for compliance with OJEU and third party due diligence checks carried out prior to contract award; and
- Contract management in place with responsibility for completing assurance checks on contract compliance.

Potential business impact
Medium-term. Health and Safety; Environment; Customer Service; Reputation; Financial; Regulatory; Legal; Operations.

Opportunity
Increase the effectiveness and financial efficiency of operations.

Executive responsibility
Brandon Rennet – Chief Financial Officer

Role of the Executive team
- Reviewed the performance and integration of the supply chain and alliance partners; and
- Monitored how management tracked and responded to rising levels of risk within the supply chain and alliances.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Implement an effective delivery route for AMP7.

Health, safety, environment and security

Failure to manage risks resulting from our operations could result in fatality or injury, significant environmental damage, personal health and safety lapses, crime and sabotage and internal security related attack.

Link to strategic priorities:

Risk climate:

Key drivers
- Public Subsurface Work Operations;
- Reservoir tunnel integrity;
- Catastrophic asset failure.

Overarching vulnerabilities
- Previous under-investment;
- Network complexity; and
- Ageing assets.

Mitigation
- Zero tolerance approach when safeguarding the health, safety, security and wellbeing of employees, partners and the public;
- Clearly defined strategy, safety policies, protocols standards and training schedule that are set, monitored and reported; and
- Close work with partners and suppliers to ensure a safe environment.

Potential business impact
Short-term. Health and Safety; Environment; Reputation; Financial; Regulatory; Legal; Operations.

Opportunity
Lead the industry in HSES to reduce incident levels.

Executive responsibility
Steve Spencer – Chief Operating Officer

Role of the Executive team
- Debated any risk management matters raised by the Health, Safety & Wellbeing function and the actions being taken by management to respond; and
- Debated specific areas of HSES risk, including public safety.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Review and continuously improve business continuity and resilience programmes.

Technology systems and security

Effective operations and protection of data relies on the availability, integrity and security of complex technology systems and networks. This includes those of our third-party service providers and partners.

Link to strategic priorities:

Risk climate:

Key drivers
- Cyber security;
- IT infrastructure asset health;
- Resilience and business continuity planning.

Overarching vulnerabilities
- Removal of legacy IT systems;
- Efficiency in the third party supply chain; and
- Digital network resilience.

Mitigation
- Collaborate across utility industry and public and private sectors to manage security threats to national infrastructure;
- Solutions in place to detect and investigate security threats and incidents to ensure potentially vulnerable systems are identified and vulnerability gaps closed; and
- Review adequacy and effectiveness of infrastructure and technology security controls, undertake employee security awareness training, and test contingency and recovery processes.

Potential business impact
Short-term. Customer Service; Reputation; Financial; Regulatory; Operations.

Opportunity
Increase the sustainability, resilience and security of our technology infrastructure.

Executive responsibility
John Beaumont – Digital, Strategy and Transformation Director

Role of the Executive team
- Debated specific areas, including cyber security; and
- Monitor the delivery of plans and the appropriate allocation of resources to improve infrastructure.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Embed an improved technology function for our business.

Principal risks and uncertainties continued

Compliance risks

Legal and regulatory compliance

Significant UK and EU legislative and regulatory change and scrutiny may require additional compliance and reporting arrangements as well as amendments to existing policies and procedures to be in place.

Link to strategic priorities:

Risk climate: =

Key drivers
- Protection of data;
- Environmental permitting regulations; and
- Drinking water inspectorate.

Overarching vulnerabilities
- Complex regulatory environment;
- Historic operational performance; and
- Volatile political environment.

Mitigation
- The Board promotes high ethical standards of behaviour and ensures the effective contribution of all Directors;
- Clear understanding of regulatory and key legal obligations and identify impending new legislation, and changes to existing legislation and licence conditions, with assurance programmes in place; and
- Policy framework, training programmes and corporate responsibility approach in place for employees and service delivery partners to ensure compliance with key laws such as data protection, competition, honest and ethical behaviour and cyber security.

Potential business impact
Short-term. Health and Safety; Environment; Customer Service; Reputation; Financial; Regulatory; Legal; Operations.

Opportunity
Lead the industry in compliance with legal and regulatory frameworks.

Executive responsibility
Nick Fincham – Strategy and Regulation Director

Role of the Executive team
- Monitored exposures to regulatory obligations and legal vulnerabilities;
- Implemented company values to deliver strategic objectives and performance.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Embed assurance mapping framework against key compliance obligations.

Financial risks

Credit and liquidity

Inaccurate forecasting, exposure to adverse conditions in debt or capital markets, counterparty payment obligation default or adverse actuarial pension scheme valuation may hinder or prevent business activity.

Link to strategic priorities:

Risk climate: =

Key drivers
- Potentially adverse PR19 determination;
- Counterparty credit risk; and
- Long-term financial obligations.

Overarching vulnerabilities
- Transition from 2015 to 2020 regulatory period programme;
- Previous under-investment; and
- Volatile political environment.

Mitigation
- Cash forecasts on liquidity requirements and assessed for different scenarios;
- Planning, committed facilities, hedging strategies and investment processes in place; and
- Long-term refinancing with staggered maturity dates to minimise the effect of short-term downturns.

Potential business impact
Medium-term. Reputation; Financial.

Opportunity
Increase stakeholder confidence through a stronger balance sheet and liquidity.

Executive responsibility
Brandon Rennet – Chief Financial Officer

Role of the Executive team
- Monitored liquidity performance against business and regulatory requirements; and
- Reviewed capital and funding requirements to achieve strategic drivers.

Movement in the period
- There has been no significant change in the inherent risk profile during 2018/19.

Looking forward
- Continue to focus on improving operational performance and delivering further improvements within our business plan.

Introduction

In accordance with provision C.2.2 of the UK Corporate Governance Code the Directors have undertaken a robust assessment of the long-term viability of the Company. This reflects an extension of the Company's usual business planning process, and incorporates the key matters concerning resilience that have featured in the Company's business plan submission for the next five year regulatory period 2020–2025.

This viability statement is set out in three sections[1]:

1) The Board's approach to the viability assessment;
2) Severe but plausible downsides and the Board's conclusion; and
3) The Board's considerations of a more extreme outcome and assessment around how the customer will always be protected in terms of the Company's ability to continue to deliver an effective service.

1 The Board has given consideration to the range of severe but plausible downsides used in the assessment. As the Directors view such scenarios to be the most appropriate for determining the long-term viability of the business, analysis of the PR19 scenarios prescribed by Ofwat have not been included. This is in line with Ofwat's Information Notice dated April 2019 which states that companies do not need to include the prescribed scenarios when completing their long-term viability statements.

The Board's viability assessment is subject to review by our external auditors who comment on whether there are any inconsistencies between this and the rest of the financial statements. Their audit opinion on pages 150–156 of this Report has not highlighted any inconsistencies.

Board's approach to the viability assessment

Throughout the year the Board assesses, on a regular basis, the key risks facing the Company, and the actions available to help mitigate against the impact of such risks – both individually and collectively, recognising that different risks can, and do, materialise at the same time. The assessment includes robust challenge by the Board over financial forecasting, the risk management assessment process, regular and timely budget reviews and finally scenario planning incorporating severe but plausible scenarios. The overriding objective is for the Board to assess the long-term prospects for the Company, ensuring the operations and financing arrangement are sustainable to support the delivery of critical customer service. Similar to the prior year, the Board continues to use a rolling ten year assessment period to assess the prospects and viability of the Company. The assessment period is therefore up to 31 March 2029 – covering both the remainder of Asset Management Plan ("AMP") 6, the whole of AMP7 and the majority of AMP8

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 debt markets and ability to maintain an investment grade credit rating, whilst having regard to the principal risks and uncertainties as described on pages 38–44. Due to the ten year look-forward period, the level of certainty of the assumptions used reduces the further into the future we look. The high degree of confidence for the remainder of the current price control period to 31 March 2020, is followed by moderate confidence in the next five year price control period to 31 March 2025 (based on our business plan for this period, the current status of PR19 regulatory progress and the medium term horizon) and a lower level of confidence for the first four years of the following five year regulatory period. In spite of the reduced confidence levels in the later years of the look forward period, the Directors continue to consider the ten year period to be appropriate given the long term nature of the business.

Severe but plausible downsides and conclusion

The Board's approach has been to test the financial resilience of the business against a range of severe but plausible downside events derived primarily from the principal risks and uncertainties set out on pages 38–44. Such downsides have been applied to the Company's Business Plan which was resubmitted to Ofwat in April 2019, as part of the PR19 process. The totex outlined in the Business Plan was designed to deliver a certain level of service, as such neutral performance has been assumed over the period of the Business Plan. Stress testing has considered the impact on the covenants attached to the Company's funding position, the credit rating and liquidity (taking into account the dependency of existing financing arrangements and the availability new debt) as these are key to the overall assessment of financial resilience. Each event has been considered individually, with the aim of identifying and quantifying the impact of severe but plausible outcomes, which typically manifest themselves as cost increases, reductions in revenue, performance penalties, regulatory fines and/or reputational damage. Timing has been an important consideration and the Board has also considered the impacts being sustained for periods of multiple years. As part of the review, the Directors have identified and factored in certain preventative and mitigating controls which could be used to reduce the financial and/or reputational impact. Furthermore, the Board has considered a range of combined scenarios whereby two or more of the individual principal risks compound each other, to reflect circumstances that can arise in practice where often two or more events can combine in the same time frame. Descriptions of the individual events and how they relate to the principal risks (see pages 38–44) are outlined overleaf.

Long-term viability statement continued

Ref	Principal risk name	Impact	Description
A	Economic downturn	Political, Regulatory and Economic Environment, Credit and Liquidity	• In the event of a poor macroeconomic environment materialising over a prolonged period of time, growth would be adversely affected resulting in low inflation. The Company's wholesale revenue, RCV growth and totex is linked to the underlying rate of inflation. As such our financial performance is likely to be negatively affected by low inflation or in a severe scenario deflation • In response to depressed economic growth, it is expected that interest rates would be relatively low to promote growth. This would in turn reduce interest costs for the Company, partially mitigating the adverse financial impact arising from low inflation • We have stressed tested for low growth taking place over the majority of the assessment period
B	Increase in bad debt	Political, Regulatory and Economic Environment, Credit and Liquidity	• Regulations prohibit water companies from disconnecting domestic/residential properties for non-payment of water supplies. This can present difficulties in recovering full and timely payments from customers. We have conservatively modelled an adverse trend where bad debt would increase by up to 20% for each year, starting in the second year of the assessment period. This would take into account unforeseen shortfalls in achieving the expected cash collection rates as well as an economic recession where certain customers would be unwilling to pay their bills

C	Adverse weather	Health, Safety, Environment and Security, Customer Service, Trust and Reputation, Climate and Societal	• Adverse weather includes a number of the following events, which take place for the majority of the assessment period. These events are listed in order of descending magnitude below. Such events attempt to take into account potential the impact of climate change
			  • severe wet weather event causing additional sewer flooding which is in excess of operational limits
			  • severe cold weather event leading to higher than expected burst pipes due to "freeze/thaw" conditions
			  • severe dry summer event resulting in higher than normal number of droughts which require emergency reinforcement of water supplies and temporary usage bans resulting in compensating customers for interruptions

D	Loss of operational capacity/asset failure	Health, Safety, Environment and Security, Customer Service, Trust and Reputation, Climate and Societal, Asset Management and Performance	• Assumed catastrophic failure of a major asset causing severe water supply interruptions. This leads to the use of more expensive alternative water production facilities and the provision of customer compensation. Additional costs are incurred to repair/replace the associated assets • We have also investigated the impact of a significant failure in the wastewater network which could potentially lead to adverse consequences on transportation routes • We have modelled that this takes place for the majority of the assessment period
E	Significant non-compliance of regulations	Trust and Reputation, Legal and Regulatory Compliance	• Unforeseen non-compliance with regulations such as General Data Protection Regulation (GDPR), environmental legislation, and water quality legislation could result in significant fines
F	Failure to achieve performance commitments	Business Planning, Forecasting and Execution, Political, Regulatory and Economic Environment, Legal and Regulatory Compliance	• The adverse effect of more stringent performance targets has been taken into account. We have assumed a similar penalty pattern to risk event E • We have modelled that this takes place for the majority of the assessment period

Ref	Principal risk name	Impact	Description
G	Significant water quality incident	Health, Safety, Environment and Security, Customer Service, Trust and Reputation, Legal and Regulatory Compliance	• We have assumed a Cryptosporidium outbreak taking place twice over the assessment period, with each incident crystallising five years apart • Such an incident would involve the contamination of a localised water treatment site which serves a significant customer base • Significant totex would be required to compensate customers, address reputational damage, temporarily provide alternative water sources to customers and provide additional investment to monitor and neutralise the microscopic bug
H	Significant comprise of cyber security	Customer Service, Trust and Reputation, Legal and Regulatory Compliance, Technology Systems and Security	• A severe compromise of technology and systems such as through a cyber-attack has been assessed. Systems are essential in the effective and efficient control and operation of our infrastructure assets
I	Loss of IT capability	Customer Service, Trust and Reputation, Asset Management and Performance, Technology Systems and Security	• As we continue to invest in strengthening our IT estate, we face a number of delivery challenges. To reflect the risks of cost overruns associated with delayed implementation, additional operating costs have been assumed. Specifically these costs cover remedial works, parallel running of both the legacy and new Customer Relationship Management and Billing System whilst issues are addressed, attrition of service staff and customer compensation to address reputational damage
J	Failure to achieve Business Plan objectives	Business Planning, Forecasting and Execution, Asset Management and Performance, People, Supply Chain Management	• We have modelled further totex investment over and above what is allowed by the regulator in order for the Company to deliver its performance commitments and maintain its asset base at the expected levels, is required
K	Increase in the cost of new debt issuance	Credit and Liquidity, Business Planning, Forecasting and Execution	• An increase in the cost of new debt issuance has been assumed to reflect any potential credit rating downgrade arising from adverse operational and/or financial performance
L	Implementation of Ofwat's original gearing sharing mechanism	Political, Regulatory and Economic Environment, Credit and Liquidity, Business Planning, Forecasting and Execution	• We have tested the impact of implementing Ofwat's original gearing sharing mechanism

In addition to the specific risks highlighted above, for completeness the Board has also considered how the forecast economic downsides would impact the Company's defined benefit pension liability as recognised in the statement of financial position. In conclusion the Board determined that a decrease in inflation would probably result in a decrease in the pension liability and a decrease in interest rates would likely result in an increase in the pension liability. These two impacts would not be expected to directly offset each other, however, overall the impact of such macroeconomic factors is not considered to have a severe impact on the defined benefit pension liability over the assessment period. Additionally, for the assumption around longevity the Directors concluded that it is not considered that a plausible change in this assumption would be significant enough to have a severe impact on the defined benefit pension liability.

In conducting the viability assessment, the Board has assessed the intercompany arrangements and the corporate structure of the Group (as detailed on page 113). No scenarios were identified that would impact the viability of the Company.

The impact of each event identified above has been considered and for the purpose of the long-term viability assessment the Board has considered four combined downsides which have been designed to be severe but plausible. Such downsides have been developed taking into account historical events and performance, the probability of such events taking place in a combined manner and consideration of how the individual principal risks and uncertainties which have been merged. Descriptions of these linked scenarios, along with the underlying constituent risk events, are detailed below.

All downsides include (i) the impact of an adverse macroeconomic environment, (ii) significant cash flow shocks from regulatory penalties for failure to achieve certain performance targets, (iii) additional expenditure required to achieve business plan objectives, (iv) an increase in the cost of new debt issuance associated with any potential credit rating downgrade arising from adverse operational and/or financial performance and (v) implementation of Ofwat's original gearing sharing mechanism.

Long-term viability statement continued

As the Board considers the four combined downsides to be the most appropriate, analysis of the PR19 scenarios prescribed by Ofwat have been excluded when assessing the long-term viability of the business. This is in line with Ofwat's Information Notice dated April 2019 which states that companies do not need to include the prescribed scenarios when completing their long-term viability statements. Whilst Ofwat's PR19 scenarios have not been used to determine the Board's viability assessment, the combined downside scenarios do take into account elements of the Ofwat prescribed scenarios, albeit in a different variation. Separately, viability of the business based on the PR19 scenarios was demonstrated in the Company's Business Plan submitted to Ofwat in April 2019.

	Scenario	Description/rationale

1	Adverse weather with economic downturn	• Various adverse weather incidents resulting in regulatory and performance penalties.
		  • A severe wet weather event causing flooding that is in excess of pumping capacity leads to major asset failure
		  • A severe cold weather event creating severe "freeze/thaw" conditions that over-stress our asset integrity limits leads to major asset failure
		  • A severe dry weather event causing short-term drought that is in excess of our reserves capacity leads to a significant interruption to supply
		• Presence of other significant asset failures including interruptions to water supply and compromises in the wastewater networks
		• Consequently, we overspend on our business plan to remediate and compensate for the damage experienced
		• Backdrop of prolonged economic downturn leading also to increases in bad debt
		• An increase in the cost of new debt issuance reflecting any potential credit rating downgrade
		• Application of Ofwat's original gearing sharing mechanism
		• Combining risk events: A, B, C, D, E, F, J, K, L

2	IT failure with economic downturn	• A cyber-attack on our IT systems leads to a short-term IT asset failure and data breach, which results in regulatory and performance penalties • Overspend is incurred to remediate and compensate for the incident and impact to customer service • Backdrop of prolonged economic downturn leading also to increases in bad debt • An increase in the cost of new debt issuance reflecting any potential credit rating downgrade • Application of Ofwat's original gearing sharing mechanism • Combining risk events: A, B, E, F, H, I, J, K, L
3	Poor water quality with economic downturn	• A loss of process control results in Cryptosporidium contamination of a localised water treatment asset. • Consequently, the interruption of water supplies impacts a significant customer base. • Regulatory and performance penalties are incurred as a result • Overspend is incurred to remediate and compensate for the incident and impact to customer service • Backdrop of prolonged economic downturn leading also to increases in bad debt • An increase in the cost of new debt issuance reflecting any potential credit rating downgrade • Application of Ofwat's original gearing sharing mechanism • Combining risk events: A, B, E, F, H, J, K, L
4	Cyber and asset failure with economic downturn	• A cyber-attack on IT systems which are integrated with our operational asset infrastructure leads to short-term operational asset failure • Presence of other significant asset failures including interruptions to water supply and compromises in the wastewater networks • Regulatory and performance penalties are incurred as a result • Overspend is incurred to remediate and compensate for the incident and impact to customer service • Backdrop of prolonged economic downturn leading also to increases in bad debt • An increase in the cost of new debt issuance reflecting any potential credit rating downgrade • Application of Ofwat's original gearing sharing mechanism • Combining risk events: A, B, D, E, F, H, I, J, K, L

Board's conclusion

In assessing the impact of the principal risks, the Board has considered the preventative and mitigating actions that are available to address the aggregated impact and importantly the impact on the covenants that attach to the Company's key funding facilities. Based on this assessment the Board has a reasonable expectation that the Company will be able to operate within its financial covenants, maintain an investment grade credit rating and maintain sufficient liquidity facilities to meet its funding needs over the ten year assessment period.

This conclusion has been made assuming capital markets continue to operate under normal market conditions and that no renationalisation of the water sector takes place over the assessment period.

Extreme events and protection for our customers

Whilst the Board has concluded that the Company is financially viable over the assessment period, the Directors have considered how customers would be protected if extreme but low likelihood events were to materialise and subsequently challenge the viability of the business. As the Company provides an essential service to its customers, it is critical that continuity of water and wastewater services remain in place.

Last year's annual report outlined that in the unlikely circumstance of certain extreme events crystallising and unsuccessful renegotiation with external funding parties, the Company would be unable to satisfy certain financial covenants which would result in an 18 month standstill of creditor claims taking effect. In the instance of continued financial stress arising from the extreme event taking place, the Company would be placed into "Special Administration" upon expiry of the standstill period. To facilitate the continuity of services, the Company is developing a "living will", similar to the recovery and resolution plans used in the banking/insurance industry. The living will would include (but not be limited to) a contingency plan which could be implemented during financial distress to ensure the provision of critical services and minimise costs. It would also indicate an outline of the personnel, systems, facilities, suppliers and other nonfinancial resources needed to execute the contingency plan. In doing so, any potential impact on customers would be minimised. It should be recognised that the contents of the living will is expected to evolve over time as the Board develops its assessment.

Brilliant customer engagement

Progress during 2018/19

Looking after water

- High water quality with 99.96% compliance with the Drinking Water Inspectorate drinking water quality standards (Mean Zonal Compliance)
- 13,876 lead pipes replaced

Helping those in need

- 41% increase in numbers on social tariffs
- 15% increase on priority services register
- 6,742 additional customers with water debt supported through the customer assistance fund, with payments totalling more than £4.5 million

Customer contact

- Launched industry leading new customer relationship management and billing platform with over 235,000 customers migrated to date
- New website in development to help customers self-serve
- Engaged with almost 25,000 young people about water efficiency and sensible flushing habits
- Reduced demand by 20 million litres of water a day through our innovative Smarter Home and Business Visits
- Targeted marketing and proactive text campaigns reduced demand during the heatwave

Our priorities

- After an increase in written complaints during 2018/19, we're prioritising complaint reduction during 2019/20 and aim to halve customer complaints by 2025
- Reduce water quality events by 27% between 2020 and 2025
- Majority of customers to move to new customer relationship management and billing platform by March 2020
- 36,500 lead pipes to be rehabilitated during this regulatory period and a further 53,840 pipes by 2025
- Support at least 200,000 families with social tariffs by March 2025
- Move 410,000 customers to priority service register by 2025
- £5 or 1.3% reduction in real terms in average household bills by 2025 then flat average bills until 2030

Measuring our progress

87%

customer acceptability of the 2020 to 2025 business plan

235,000

customers on new customer relationship management and billing system

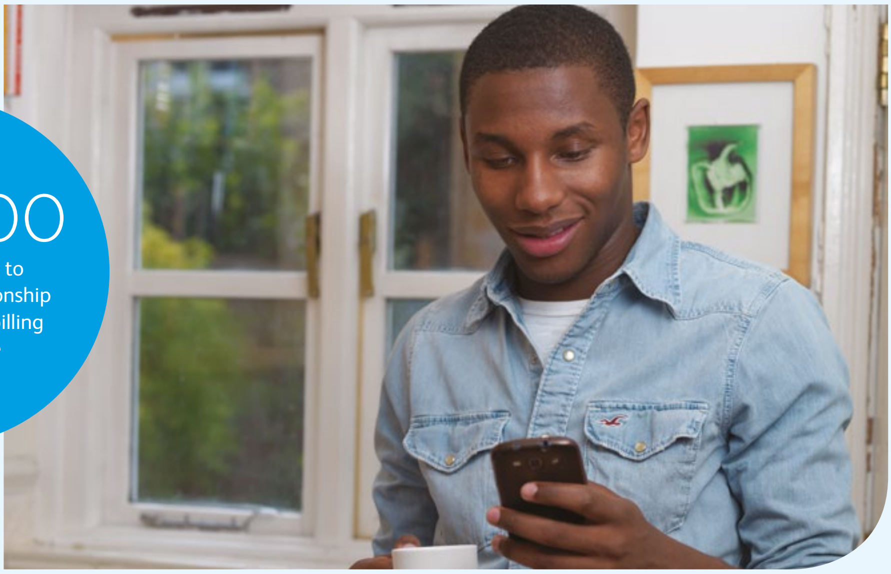
Read more about our innovation **pages 60–61**

Our strategy in action: Transforming customer experience

December 2018 saw the culmination of one of our major transformation programmes, with the launch of our new billing engine and customer relationship management system – a cornerstone for the transformation of our customer contact and billing experience.

One of the biggest innovative solutions of its kind in the utility sector in Europe, it will replace an aged, inflexible, system, revolutionising our capability to manage customer metering, billing and collections activities, providing a more effective, efficient and resilient service to our customers. To date we have successfully migrated 235,000 customers and are on track for the majority of customers to be using the new system by March 2020.

The new solution provides our frontline customer service advisors with greater ability to assist customers through improved data, insight and processes, enabling them to resolve more queries on first contact and, in turn, improve customer satisfaction and reduce complaints. Our pilot office is demonstrating strong performance to date and the solution design and operation means we will continue to invest to continuously improve the platform to meet our customers evolving needs.



235,000
customers moved to new customer relationship management and billing system to date

Data to insight to action

Our progress

Improving operational performance using data

- 27,183 leak detecting acoustic loggers installed to date with trial launched to create connected system
- Installed 92,394 smart enabled water meters; total of 326,768 smart meters now transmitting data across the network
- Leakage prevention of 12.13 Ml/d using smart meter data
- Almost 1,000 sewer depth monitors installed since the beginning of the programme in January 2018
- Used data to identify unmetered and unbilled supplies used for building works – investigations reduced leakage by 5.25 Ml/d and brought in just under £1.5 million of missed revenue during 2018/19
- Near real-time visibility of 49 water systems compared to zero during the previous year

Increase stability of IT infrastructure

- Launched £60 million investment programme to modernise IT infrastructure by March 2020. During the year, we rolled out new laptops to increase employee capability and provide faster and more efficient customer service

Smarter incident response

- Launched new real-time incident viewer tool showing numbers of customer contacts, status of operational work, critical pressure points and bottled water stations during an incident

Our priorities

- Launch new website, improving customer and stakeholder experience
- Create smarter networks and develop the use of operational data to better manage our network
- Install 200,000 sewer depth monitors between 2020 and 2025
- Install 700,000 smart meters by 2025
- Support data-led architecture with £60 million investment in IT infrastructure
- Build new field force management technology to improve capability to get the right team to the right job, and to improve communication to customers during incidents
- Enhance customer self-service functionality to reduce voice call dependency and cater to customer choice

Measuring our progress

326,768

smart meters now transmitting data across the network

49

Near real-time visibility of 49 water systems

Read more about our innovation **pages 60–61**

Our strategy in action:
Intelligent demand management

Embracing our company mantra of converting data and information to insight and action, we can now see 49 water systems in near real time for the first time.

This is a massive step forward in the management of our water services. It means we can see how much water we have in storage, how much we're treating, and how much people are taking from the network, all in near real time. Armed with this information we're streets ahead of where we were, in our ability to be proactive in our activities, and communicate with our customers ahead of time, to manage supply and demand during hot weather, for example. These systems were a direct result of our learnings during the summer 2018 heatwave.

Below we demonstrate how the system can detect leaks.

A digital alert was triggered when a spike in water demand showed up on graphs for a place called Childrey Warren. The increase in water use was uncharacteristic and persisted over a few days.

Using the new system, we were able to pinpoint the anomaly to a place called Hackpen, before sending out an engineer who discovered a leak and arranged for the repair.

An unusual spike in demand shows up in graphs for a place called Childrey Warren

Our strategy continued

Resilient systems and assets

Our progress

- Invested over £1 billion in our assets during the year, leading to a total of more than £15 billion in the past 15 years

Leakage

- Average leakage for the year is 690 Ml/d against a 2018/19 target of 612 Ml/d, however, the average for the final week of the year was 654 Ml/d, a 13% reduction to the final week position in March 2018
- Set up specialist, cross-functional Leakage Task Force in November 2018 to increase focus and oversight of leakage
- 71,299 leaks repaired during the year and leakage repair crews increased by 21%
- 172km water mains rehabilitated

Incident management

- Secured dedicated water bottling capability to deliver up to one million litres per day during supply interruptions
- 96% of actions committed to as part of our response to Ofwat's freeze thaw review are completed or "on track", to better protect customers during incidents

Resilience to population growth

- Major upgrade of Deephams sewage treatment works completed (see opposite)
- Innovative repair of Kings Scholar Pond sewer increased lifespan of sewer by 120 years (see innovation pages 60–61)
- Launch of smart bacteria trial at Sherfield-on-Loddon sewage treatment works to reduce processing footprint and increase robustness of ammonia removal at colder temperatures

Our priorities

- Reduce leakage by 15% (606 Ml/d to 509 Ml/d) between 2020-25, and by 50% by 2050
- Rehabilitate 173km of water mains by March 2020 and "replumb London" over the next 30 years
- Reduce the number of supply interruptions by 20% between 2020 and 2025 to only 8 minutes 30 seconds per property
- Continue significant investment programme, with £1 billion committed to 2020 and a further £6 billion to be invested between 2020 and 2025
- Investment to upgrade 11 sewage treatment works between 2015 and 2020, and a further 22 by 2025 to meet population growth needs
- Deliver an average 22.5% reduction in operational unit costs between 2020 and 2025
- Deliver a Security of Supply Index of 100 by March 2020 and maintaining this level during the period 2020–2025

Measuring our progress

Over £1 billion

invested in assets in 2018/19

Over 480km

of water mains rehabilitated this regulatory period

Read more about our innovation **pages 60–61**

Read more about our performance commitments **pages 62–73**

Our strategy in action:
Resilience to population growth

To prepare for predicted population growth and reduce odour for customers living nearby, we've completed a major £267 million upgrade at Deephams sewage treatment works in North London.

The project will allow the site to serve an increased population equivalent of 104,000 accommodating predicted growth until 2031. Since its original construction at the end of the 19th century, housing developments have moved closer to the works, through population growth and urbanisation, making odour management important for local customers. The new site will drive a 99% reduction in odour emissions.

During the project, which saw three sludge "streams" combined into two more efficient facilities with higher capacity, the safe treatment of the waste of Deephams' current 885,000 population equivalent was critical. In a seamless operation, we refurbished the old plant to maximise capacity before directing flows to one half of the site to allow construction of half of the new works. Once this was completed, flow was transferred into the newly built section to enable construction of the other.

Recognised for delivering an innovative, sustainable and creative contribution to London, the project won the coveted "Greatest Contribution to London" award at the ICE London Civil Engineering awards in May 2019.

Upgrade will provide capacity for a population equivalent of more than

100,000

Protecting and enhancing the environment

Our progress

Reducing the impact of our operations

- Total pollutions incidents broadly in line with previous year (2018: 295, 2017: 292)
- Zero category one pollutions for first time in ten years
- 3% reduction in internal sewer flooding incidents and a 26% reduction from the start of the regulatory period
- 602km of planned sewer maintenance
- Created "Blueprint for Water" – shared principles to tackle issues such as pollution and sustainable drainage through joint working, in partnership with eight other water companies and 19 environmental organisations

Protecting the environment

- Environmental Performance Assessment 3* rated
- Hosted catchment management summit, with 100 companies committing to work together to improve river quality. Worked on catchment projects in Oxfordshire and Buckinghamshire. See page 57
- Worked in partnership with Network Rail to influence herbicides used on railway tracks so less likely to contaminate water
- Launched project to fund 65 hectares of green infrastructure and sustainable drainage by 2025
- Worked with over 4,300 commercial kitchens including fast food establishments, hospitals and schools to reduce fat disposal into sewers

Managing our carbon emissions

- 100% of sewage sludge put to beneficial use
- Produced 293 GWh of electricity from sludge, the equivalent of £32.6 million in electricity costs
- Thermal hydrolysis plants processing 38% of sludge, up from 32% in 2017/18
- 20% reduction in direct fossil fuel emissions since 2015/16
- Basingstoke sewage treatment works 100% powered by self-generated electricity

Promoting access to and enjoyment of the natural environment

- Over 540,000 visitors to award winning Walthamstow Wetlands since opening in October 2017
- Supported the development of a new wetland nature reserve at Enfield Lock
- Announced the creation of seven new public spaces through the construction of the Thames Tideway Tunnel

Our priorities

- Reduce pollution incidents by 30% during 2020 to 2025 and aspire to reduce the number of incidents to zero in the long term
- Reduce internal sewer flooding by 20% during 2020 to 2025 to 995 incidents per year
- Become 4 star rated under the Environmental Performance Assessment (EPA) framework
- Increase biodiversity by 5% at 253 of our sites by 2025
- Natural capital accounting implemented across 100% of our sites by 2025
- Self-generate 517 GWh of energy by 2025 (the equivalent of powering 115,000 homes)

Measuring our progress

26%

reduction in internal flooding incidents since the start of the regulatory period

Zero

category one pollution incidents for first time in ten years

Read more about our innovation **pages 60–61**

Read more about our performance commitments **pages 62–73**

Our strategy in action:
Improving river quality

We're launching our Smarter Water Catchments initiative as a way of looking at and protecting the environment in each river catchment, to enhance biodiversity, create a safer environment for recreation and drive efficiency in the way we deliver our water and wastewater services.

The initiative is rooted in collaboration with farmers, businesses, Government and NGOs. In part, projects are designed to reduce contamination from farmland, forestry activities, roads and industrial areas. While delivery starts in earnest in 2020, during the year we have built relationships with catchment partnerships and worked on agreed catchment plans.

In partnership with farmers, we trialled a mutually beneficial initiative where soil is inverted rather than ploughed, to avoid nutrients being washed into water sources. We also worked with local communities to improve data collection about the health of our rivers, for example, working with Earthwatch on the River Evenlode and River Chess to measure phosphorus and nitrates, and to count species.

Recognising catchment solutions are multi-sector and highly interconnected, in May 2018, along with 50 organisations such as Coca-Cola and Asda, we made a pledge to improve catchment management to address increasing pressures to UK water.

We're launching our **smarter water catchments** initiative to protect the environment in our river catchments

A collaborative and capable team

Our progress

- Mean gender pay gap reduced by 0.4 percentage points to 10.4% between April 2018 and April 2019
- Median pay gap has also reduced, down from 12.5% to 12.2%
- Jumped 25 places in the Stonewall Workplace Equality index
- Joined the Energy & Skills Partnership to promote and nurture greater diversity and inclusion

Health, safety and wellbeing

- Work related lost time frequency rate 0.16 – in line with previous year. 44 lost-time injuries during the year
- Reached record 41 days, 3.7 million work hours, without a single injury leading to someone not being able to return to work the next day
- Developed new best-practice guidelines for Mental Health First Aid implementation in the workplace in partnership with Mental Health First Aid England
- 468 employees taken part in Mindfit training and 268 employees taken part in Mental Health First Aid programmes since April 2018
- "Time to Talk" mental health strategy was a finalist for the APS (Association for Project Safety) National Construction, Design & Management awards for Health, Safety and Wellbeing Initiative of the Year

Employee engagement

- Engagement increased to 71% (2017/18: 70%) in the annual employee survey
- 90 employees successfully completed community speaker sessions providing them with skills to confidently visit schools and community groups to talk about topics ranging from water resources to fatbergs

Our priorities

- Continue to embed "One Thames" and supply chain restructures to deliver what our customers want, and embed ways of working that deliver for them
- Develop a high-performance culture to drive the right outcomes for our customers and the environment
- Build a resilient resource model allowing the organisation to be primed to deliver 24/7 in an efficient and cost-effective way
- Build a skilled workforce that differentiates us. Deliver a proactive, customer focused service to our people through robust processes and advice
- Continue to review and prioritise key health and safety risk areas to eliminate and mitigate risks to our people, contractors and members of the public
- Work with our operational teams and supply chain partners to continue to provide clear leadership direction and embrace new technology to enhance health and safety

Measuring our progress

41

Record 41 day gap between lost-time injuries

10.4%

Mean gender pay gap reduced to 10.4%

Read more about our innovation **pages 60–61**

Our strategy in action: Valuing the mental health of our employees

We're committed to breaking down the stigma surrounding mental health illness. Our mental health awareness strategy, Time to Talk is designed to create an environment where our people can talk openly about how they are really feeling at work, in the same way we speak about our physical health. In 2018/19, over 300 employees contacted one of our trained mental health first aiders for support and signposting to further sources of assistance.

Taking the lead, we have shared our virtual reality educational programme with many of the country's major safety-critical employers and were one of four companies consulted by Mental Health First Aid England in its compilation of new published guidelines for employers.

Training mental health first aiders is an important first step, however we're going beyond that to make a sustainable, positive impact. As part of our strategy we have developed a mental health awareness programme, generated an active discussion forum on mental health and expanded our internal clinical occupational health team to support case management, health-screening, health surveillance and wellbeing. We've also launched a new wellbeing self-assessment online tool, which allows employees to identify pressure points in their lives and, if needed, be directed to further support and guidance.

In 2018/19, over

300

employees contacted one of our trained mental health first aiders

Innovation underpins our strategy

In a changing world, we need smarter systems that provide effective resilience and protect the environment if we are to continue to deliver the high-quality service our customers expect.

At Thames Water everyone at every level is responsible for innovation, from the Research and Development team, to those on the front line, our suppliers, stakeholders and even our customers. Our culture of innovation and our drive to collaborate and do things differently enables us to keep up with the pace of change, in ways that are more reflective of "the new world" and the unknown future.

We work in collaboration with other water companies, our supply chain and universities for more than half of all our research and development and innovation projects.

We are currently working with nine universities on 21 postgraduate and post-doctoral research projects, including the University of Surrey with whom we are investigating how to best reduce the risk of failure of both wastewater and water infrastructure.

A spotlight on some of our current projects

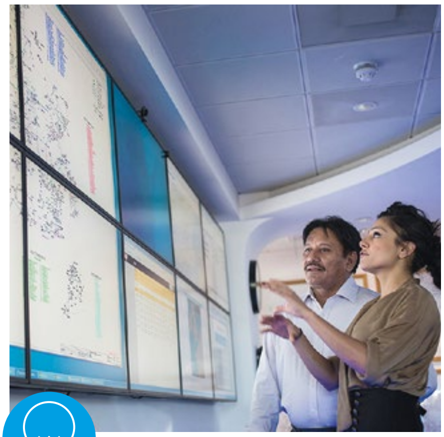
Brilliant customer engagement
Travel disruption averted by innovation

We used innovative engineering techniques to upgrade Kings Scholar Pond sewer, a Victorian sewer above Baker Street tube station, while keeping London flowing.

The innovative £20 million-pound project was completed with no disruption to the roads or railways nearby, saving customers from weeks of potential disruption in one of the capital's busiest areas.

To extend the life of the sewer by 120 years and avoid disruption, a stainless-steel bridge and liner were constructed off site, before being dismantled, lowered underground, a single piece at a time, through a narrow manhole and rebuilt inside the sewer. The 1850s-built sewer remained in full wastewater operation throughout.

Read more about our strategy in action **pages 50–51**



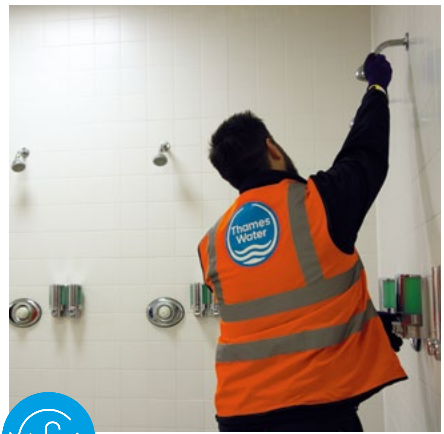
Data to insight to action
Real-time "Event Manager" Tool helps minimise impact on customers

The Event Manager Tool visualises streams of data during supply loss, using geographical information tools (GIS) to give our people real-time, business critical data at their fingertips and to allow us to keep our focus on customers.

It includes every customer call to draw attention to "hot spots", low water pressure and areas of flooding. It also highlights the location of priority services customers, so they can be supported, and provides the position of relevant employees, so they can be redeployed. When bottled water stations have been set up, footfall and levels of supply are monitored to manage demand. Local authority data provides speedy access to the right information to support our efforts, whether that be to connect to right people to secure permission to work on the road or to support the distribution of customer communications.

The real-time nature of the Event Manager Tool, combined with greater sharing of information across the business, will support improved incident management. It will provide the possibility to replay events, delivering continuous improvement opportunities to refine our approach.

Read more about our strategy in action **pages 52–53**



Resilient systems and assets

Smarter Business Visits help reduce demand for water

Our Smarter Business Visit programme supports our aim to look after precious resources and reduce demand for water. The free programme involves qualified plumbers visiting organisations to review kitchen and bathroom facilities. They "find and fix" internal leaks, most commonly leaky loos and urinals, recommend best solutions for the business and fit suitable water saving devices, such as dual flushing systems and tap inserts.

The programme has been extremely successful. Over 6.7 million litres of water per day have been saved. It has avoided the need to bring a water production site back into use at a cost of £9 million, to produce five million litres per day.

Read more about our strategy in action **pages 54–55**

Protecting and enhancing the environment

Trialling the use of reed beds to protect biodiversity

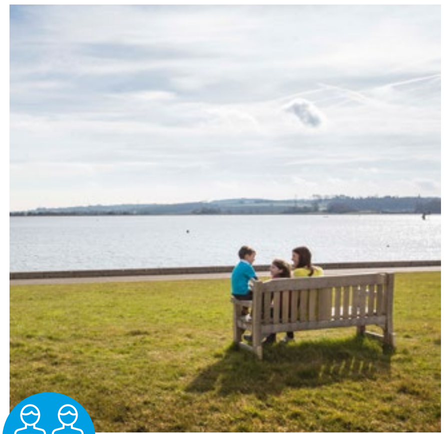
Phosphorus is an essential element for life, but when it accumulates in water it can cause algal blooms which starve the water body of oxygen and can kill plant and animal life.

Most water companies have been required to comply with regulation to remove phosphorus from treatment works for many years and are now receiving new tighter limits, including limits for small works.

We are trialling both technically advanced solutions for large works (which have the benefit of reaching very low limits and have a small footprint) and low tech, low energy, low maintenance solutions for small works. These passive processes combine constructed wetlands (or reed beds) with a specifically selected reactive media, which can retain phosphorus. We will implement a number of phosphorus removal schemes during 2020 to 2025 based on the outcome of the trials.

We are also working in partnership with farmers and manufacturers through our Smarter Water Catchment work to minimise phosphorus entering water bodies from other sources and to reduce levels entering our sewage treatment works.

Read more about our strategy in action **pages 56–57**



A collaborative and capable team

Reducing safety risks using submarines

We have been using unmanned aerial vehicles, or drones, to avoid the significant safety risk of working at height since 2014. However, working with large, deep bodies of water also brings safety risks for the divers involved as well as water quality risks within service reservoirs. We have procured a remotely operated underwater vehicle to enhance our capability for inspection within service reservoirs. This can visually inspect valves, pipes and numerous other submerged assets within service reservoirs.

Use of the vehicles allows us to fully understand the condition of specific assets within the water body which can avoid the need for a full drain of a reservoir. In addition to the considerable safety benefits, efficiency savings are made; use of the submarines may avoid the need to take the reservoir out of service and allows us to pre-plan remedial works identified from these inspections.

Read more about our strategy in action **pages 58–59**

Performance dashboard

Our performance commitments

Ofwat's outcome delivery incentive (ODI) rewards and penalties link operational performance to company returns. The following pages give a summary of our performance against our key performance commitments with full details in table 3A on pages 276–278.

RAG Rating and Description

Performance at, or favourable to, our committed performance level for 2018/19, or improving trend for T3

Performance within the range allowed without a penalty (the "deadband") if defined or, if not, within 5 % of our committed performance level, or marginal asset health, or stable trend for T3

Performance below the deadband (if defined) or more than 5 % adverse to our committed performance level

Performance information either not available, not applicable or not relevant

Rewards

£2.92m

Internal flooding of properties (other causes): **SB4**

£0.51m

Modelled reduction in properties affected by odour: **SC7**

Penalties

£4.68m

Asset health: water infrastructure: **WB1**

£10.67m

Supply interruptions of four hours or more: **WB5**

£4.53m

Security of Supply Index (SOSI): **WB6**

£35.10m

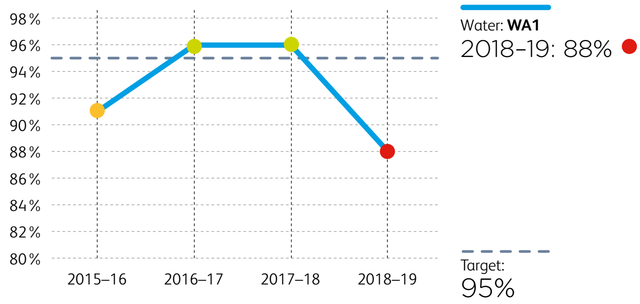
Leakage: **WC2**

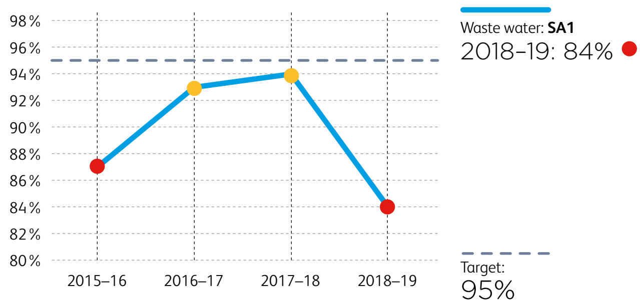
£0.12m

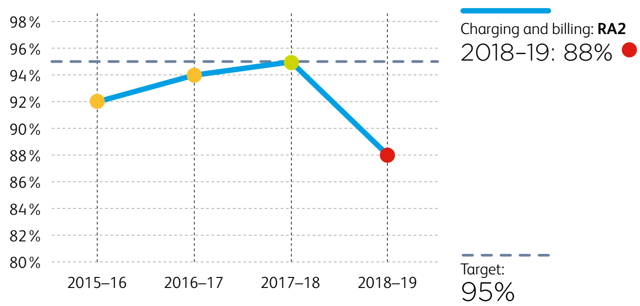
Sewage treatment works discharge compliance: **SC5**

Brilliant customer engagement

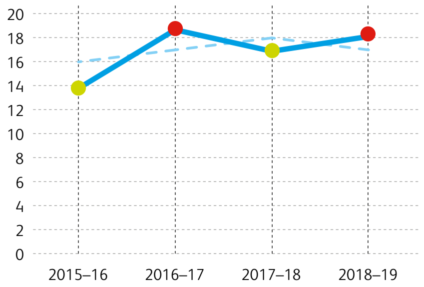
Improve handling of written complaints by increasing first time resolution





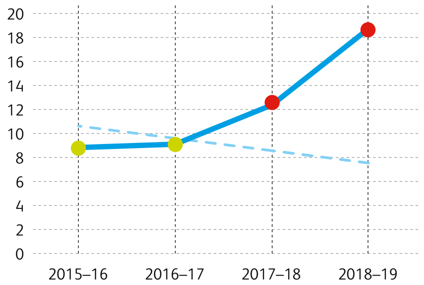


Written complaints per 10,000 connected properties



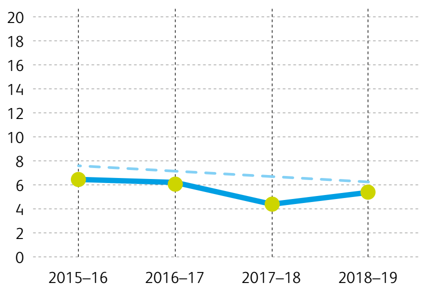
Charging and billing: **RA1**
2018–19: 18.00

Target charging and billing: 17.00



Water: **WA2**
2018–19: 18.61

Target water: 7.55



Waste water: **SA2**
2018–19: 5.34

Target waste water: 6.25

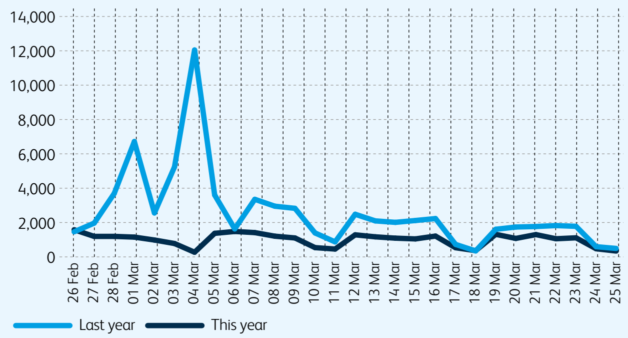
Commentary

Our performance in complaints and complaint resolution during the year was severely affected by the knock-on impact of the "freeze thaw" incident at the end of 2017/18, which affected 75,000 customers and led to a 94% increase in "no water" and low-pressure complaints. Performance was also affected by the joint hottest summer on record.

During the "freeze thaw" incident we diverted resources to dealing with customer queries relating to the extreme weather, and to get customers back in supply as soon as possible. Our focus on responding and ensuring that customers received compensation, resulted in a backlog of work, leading to an increase in the time it took us to respond to non-weather-related enquiries. Our ability to recover from this and resolve outstanding work was limited due to the focus on keeping customers in supply during the prolonged hot summer.

We're applying important learnings from the impact of "freeze thaw" and the heatwave to increase the resilience of our service to extreme weather events and reduce the knock-on impact on our day-to-day service provision. We've put in a new Quality Assurance framework, to ensure we fix things first time; invested in a greater number of agents to support during peak call times and introduced dedicated case management to support customers through more complex problems with their services.

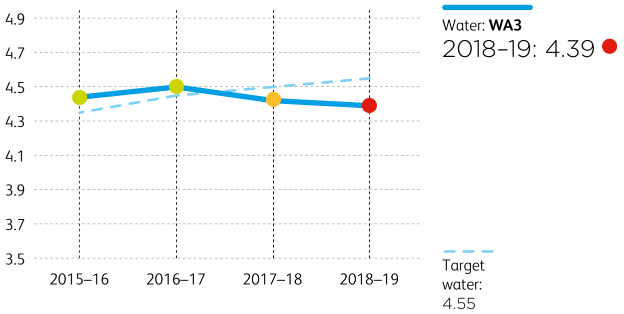
Below is a graph showing call volumes into our operations contact centre between end of February and end of March 2018, compared to the same period this year, highlighting the spike in call numbers at the height of "freeze thaw". On 4 March we received 12,000 calls.

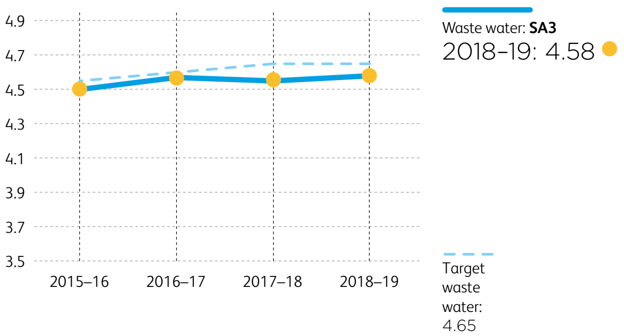


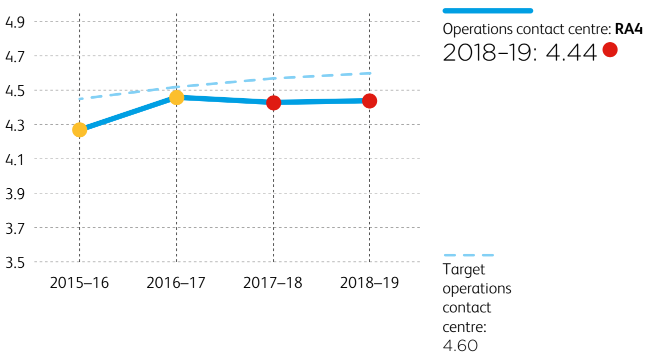
Performance dashboard continued

Brilliant customer engagement continued

Customer satisfaction (CSAT): water/wastewater and the operations contact centre





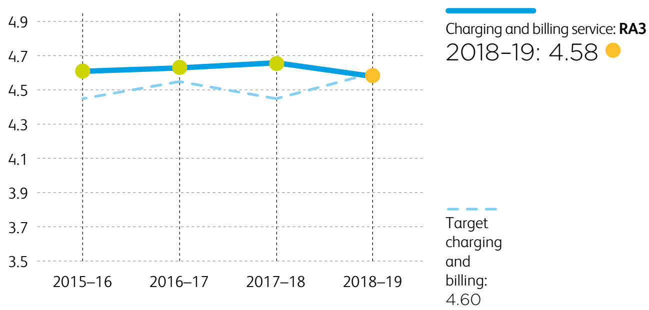


Commentary

WA3, SA3 and RA4 – As with complaints, our customer satisfaction scores were adversely affected by the need to divert all resources to dealing with the weather events of 2018, which had an impact on our day-to-day handling of calls, and ability to carry out day-to-day maintenance and repair. Performance started to recover in the second half of the year due to a much more proactive approach to communication with customers.

While we are regularly rated more than 4 out of 5 for our service, we're lagging behind our peers and are making some important changes. Initiatives such as our transition of all customers to our new customer relationship management and billing platform will help drive a step change in our performance, enabling us to provide a more tailored approach to service. We're also working hard to improve our service in the field, including reducing the time it takes to get to a job, and focusing on the performance and productivity of our engineers to ensure a better customer experience.

Customer satisfaction: charging and billing (CSAT)



Commentary

While we are regularly rated more than four out of five for our service, we're lagging behind our peers and are making some important changes. Customer satisfaction for charging and billing services remained consistent throughout the year, with the year-end performance unfortunately resulting in us missing our 4.60 target by 0.54%. Initiatives such as our transition of all customers to our new customer relationship management and billing platform will help drive a step change in our performance, enabling us to provide a more tailored approach to service.

RAG Rating and Description

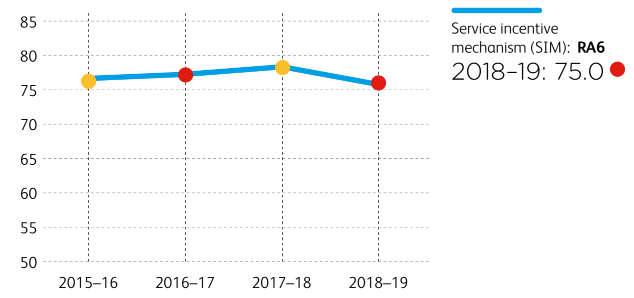
Performance at, or favourable to, our committed performance level for 2018/19, or improving trend for T3

Performance within the range allowed without a penalty (the "deadband") if defined or, if not, within 5 % of our committed performance level, or marginal asset health, or stable trend for T3

Performance below the deadband (if defined) or more than 5 % adverse to our committed performance level

Performance information either not available, not applicable or not relevant

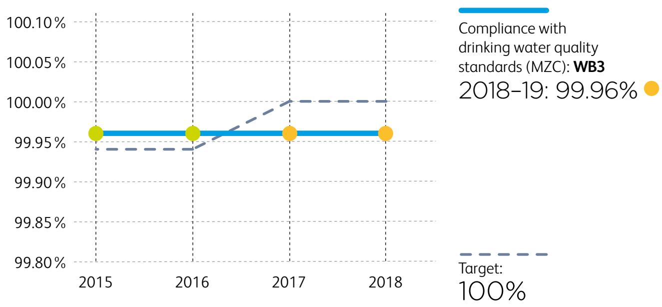
Service incentive mechanism



Commentary

Our Service Incentive Mechanism score of 75 out of 100 for 2018/19 is made up of our customer satisfaction score (75 %) and quantitative measures (25 %). The quantitative measure includes performance in "unwanted calls", written complaints and second stage written complaints, with our complaints performance during the year being severely affected by the extreme weather events (see complaints performance). We're committed to improving our service to customers with complaints reduction being one of our key priorities for 2019/20. We've started to transition customers to our major new customer relationship management and billing platform, which will help drive a step change in customer segmentation, giving us a single view of customers, so we can provide a better, and more tailored approach suited to individual needs (see page 51). We're also doing a major upgrade of our website to improve customer experience, as well as continuing our extensive customer engagement programme to ensure we're focusing on what matters most.

Compliance with drinking water quality standards

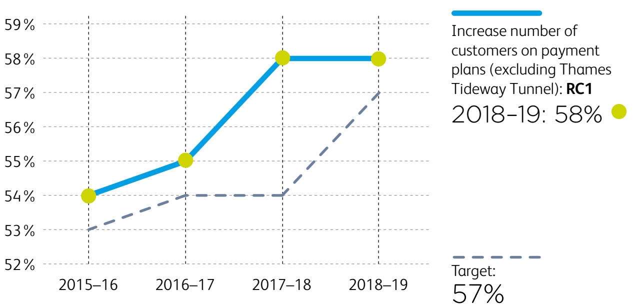


Commentary

This is a Drinking Water Inspectorate (DWI) measure of the quality of water taken from 25,000 samples at customer taps each year on which 270,000 individual analytical tests are conducted.

Since the change in lead standard in 2013 we have consistently achieved a performance level of 99.96 %. Due to tightening of the target in 2017/18 to 100 %, driven by the Drinking Water Inspectorate to incentivise full compliance, we have moved from green to amber despite maintaining the same performance level.

Number of customers on payment plans

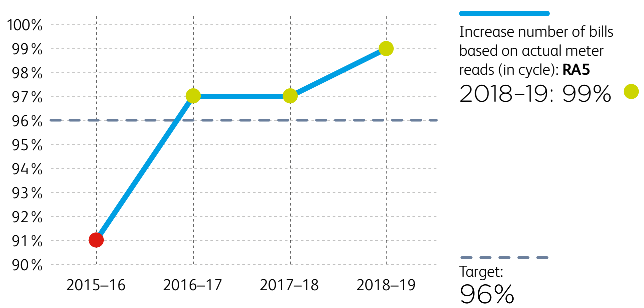


Commentary

We continue to exceed target for this measure and offer a wide range of payment options for customers. During the year, we welcomed 75,000 customers who were previously billed through Local Authority Housing Associations. This increased our customer base therefore reducing the percentage of customers on direct debit plans. If removed, the result would be 59.24 %.

The target includes non-household customers, however performance only relates to household following the sale of the non-household business in April 2017.

Number of bills based on actual meter reads in cycle



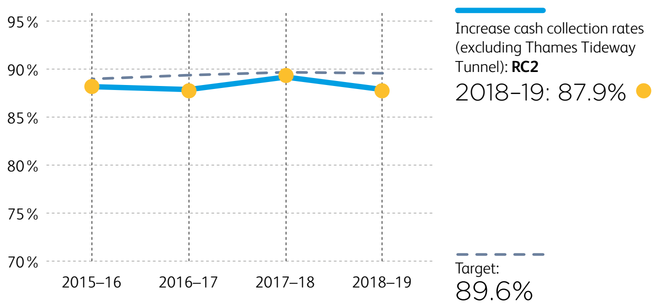
Commentary

Improved processes to drive more actual meter reads and working more closely with the wider business has seen us exceed the result from last year.

Performance dashboard continued

Brilliant customer engagement continued

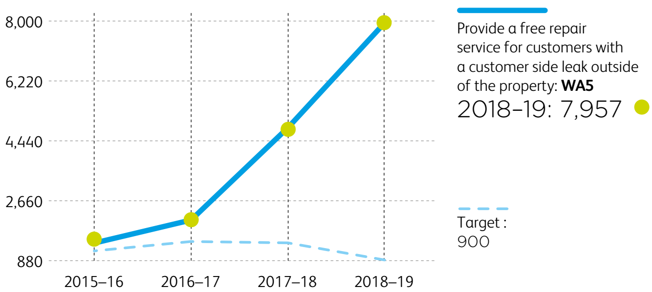
Cash collection rates



Commentary

This year we saw an increase in the number of customers switching to a metered account, which meant they were billed later and we're yet to collect cash from these customers. We have therefore seen a small decrease from last years' performance, but we expect to see this cash come in over the next few months. We are also putting in place measures to support customers who struggle to pay their bills (see page 86 for more information).

Provide a free repair service for customers with a customer side leak outside of the property

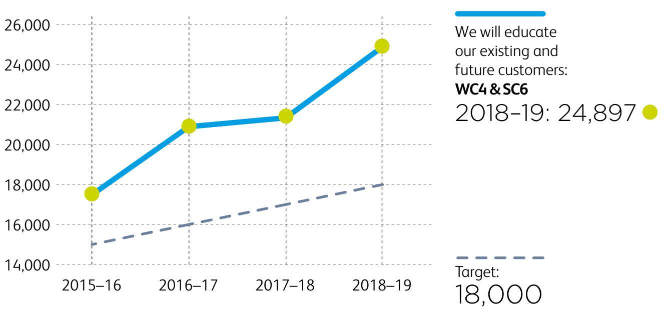


Commentary

We delivered significantly more free customer side leak repairs than our target due to the repair work recovery plan to reduce leakage.

This measure is based on repairs over and above a starting point of 10,000 repairs, so during 2018/19 we delivered 10,000 repairs, plus an additional 7,957 against a target of 900.

We will educate our existing and future customers



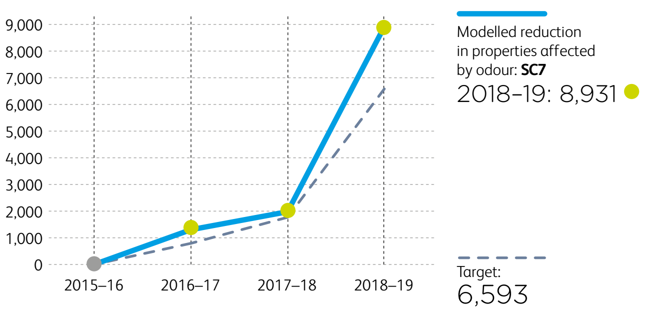
Commentary

This target measures our engagement with young people so they can develop a healthy attitude toward protecting an essential service.

We finished the year significantly ahead of target owing to various elements of the programme, including those delivered by education partners, being in great demand.

During the year we opened a new education centre at our Longreach sewage treatment works. This facility has already been visited by 129 children during eight school visits.

Reduction in properties affected by odour



Commentary

We have invested at sewage treatment works to reduce odour for the local communities we serve – urbanisation means housing developments have expanded towards our existing works.

Target was exceeded by delivering odour abatement at Deephams, Camberley, Bicester and Beddington sewage treatment works in 2018/19.

This year we have outperformed our target which results in a reward of £0.5 million.

RAG Rating and Description

Performance at, or favourable to, our committed performance level for 2018/19, or improving trend for T3

Performance within the range allowed without a penalty (the "deadband") if defined or, if not, within 5% of our committed performance level, or marginal asset health, or stable trend for T3

Performance below the deadband (if defined) or more than 5% adverse to our committed performance level

Performance information either not available, not applicable or not relevant

Account management

	2015–16	2016–17	2017–18	2018–19
Implement new online account management for customers supported by web-chat: **RB1**	Limited online	Limited online	Delivered new online self serve channel	Delivered in 2017/18
Target: end AMP target to deliver new online self serve channel in 2017–18				

Commentary

Following implementation in 2015/16, we continue to maintain our online account management tool.

Reducing water consumption by customers

Water efficiency	2015–16	2016–17	2017–18	2018–19
Reduced water consumption from issuing water efficiency devices to customers (Ml/d): **WA4**	Not available	Not available	20.22	28.25
Target: end AMP target of 15.45 Ml/d				

Commentary

This is a cumulative measure with an end of regulatory period target.

At the end of 2018/19 we have already outperformed our end of regulatory period target by 83% due to completing a higher number of water efficiency visits to customers. During these visits, customers are offered the installation of water efficiency devices, internal plumbing fixes to reduce "wastage" such as dripping taps, leaking toilets and water efficiency advice on how to better use water in the home.

Performance dashboard continued

Resilient systems and assets

Asset health

	2015–16	2016–17	2017–18	2018–19	Target
Water below ground infrastructure: **WB1** ●	Marginal	Marginal	Marginal	Marginal	Stable
Water non-infrastructure: **WB2** ●	Stable	Stable	Stable	Stable	Stable
Wastewater non-infrastructure: **SB1** ●	Stable	Stable	Stable	Stable	Stable
Wastewater infrastructure: **SB2** ●	Stable	Stable	Stable	Stable	Stable

Commentary

WB1 – Water below ground infrastructure asset health covers the health of our water pipes. Leaks caused by the hot, dry weather had an impact on the sub-measure, "unplanned interruptions to supply of 12 hours or more" and this led to a "marginal" rating. This means we will be returning £4.68 million to customers as a result of our unplanned interruptions to supply performance this year.

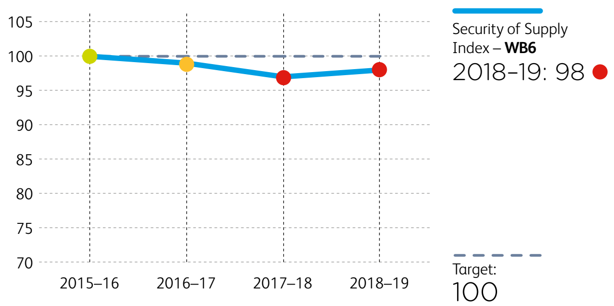
We've accelerated our mains replacement programme in recent years to repair the pipes considered most at risk. We rehabilitated 172 km of water mains during 2018/19, a 29km increase on 2017/18.

WB2 – Water above ground non-infrastructure asset health reflects the performance of water assets including our pumping stations, water treatment works and service reservoirs, and therefore the adequacy of our treatment processes. During 2018, all sub-measures making up this target were improved or maintained, leading to "stable" performance.

SB1 – Waste above ground non-infrastructure asset health examines unconsented pollutions, sewage treatment discharge compliance and "total population equivalent served by sewage treatment works failing look up permits", which set the quality of effluent we need to achieve in order not to harm the environment. Our position remains "stable".

SB2 – Waste below ground infrastructure asset health considers the number of sewer collapses, blockages, unconsented category one to three pollution incidents and the number of properties internally flooded due to other causes. Our proactive approach to reducing flooding and pollution by targeting hotspot areas is helping us to maintain "stable" for this measure.

Security of supply (SOSI)



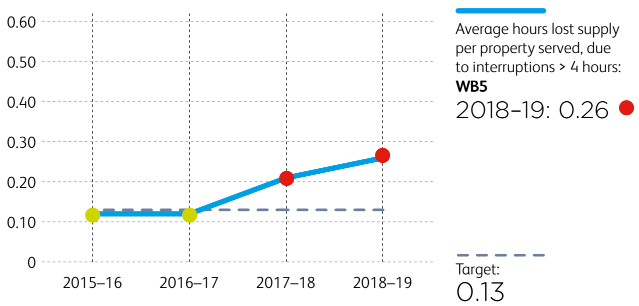
Commentary

SOSI takes into account water resources, leakage, demand management and transfers of water that we make to other water companies, to assess our ability to supply water in a dry year.

We saw an improvement in performance, reflecting reductions in dry year distribution input and target headroom in the London water resource zone. Our region is split into six "water resource zones". The result is attributable to the London water resource zone (WRZ) which was affected by the extreme weather causing higher than expected leakage. The risk remains low and does not affect the other five WRZs in our region.

We will be returning £4.53 million to customers as a result of our performance this year.

Average hours of supply lost per property serviced due to interruptions of more than four hours



Commentary

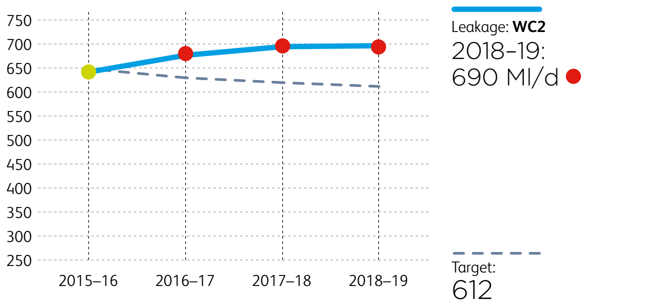
This result is largely due to the summer heatwave in July/August 2018, which accounted for nearly half of the average hours on the overall reported number. There were 10 "capped incidents" this year, where properties without water exceeded 20,000 hours, of which seven were in July and August. This is higher than the historical average of three a year.

We're making changes to improve performance including recruiting more engineers, setting up a new rapid response team for our largest water pipes, increasing monitoring of our network, and investing in new equipment to increase the speed of repairs. Our performance results in £10.68 million being returned to customers for this year.

RAG Rating and Description

- Performance at, or favourable to, our committed performance level for 2018/19, or improving trend for T3
- Performance within the range allowed without a penalty (the "deadband") if defined or, if not, within 5 % of our committed performance level, or marginal asset health, or stable trend for T3
- Performance below the deadband (if defined) or more than 5 % adverse to our committed performance level
- Performance information either not available, not applicable or not relevant

Leakage



Commentary

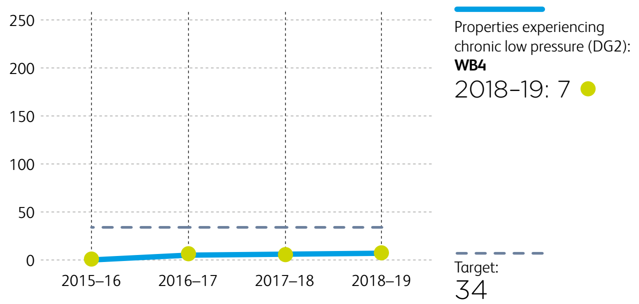
We remain committed to achieving our 2019/20 target of 606 Ml/d by 31 March 2020. Despite the challenges of last year we have held a slightly improved performance in 2018/19 of 690 Ml/d, compared to our last forecast of 708 Ml/d. This will result in us returning £35.1 million to our customers for our leakage performance this year.

Interventions made over the past 24 months have had a positive effect on leakage management processes and include improvements in asset availability, volume of activity and speed of planning and repair.

Our plan includes the necessary work volumes and mix to deliver 606 Ml/d, and allows for one severe weather event during the year. For more detailed information on leakage, see pages 18–21.

In view of the higher start point for 2019/20, and the inherent challenge of reducing leakage below our all-time lowest level, we have adjusted our forecast for 2019/20 from 606 Ml/d to a risk-adjusted figure of 636 Ml/d.

Properties experiencing chronic low pressure

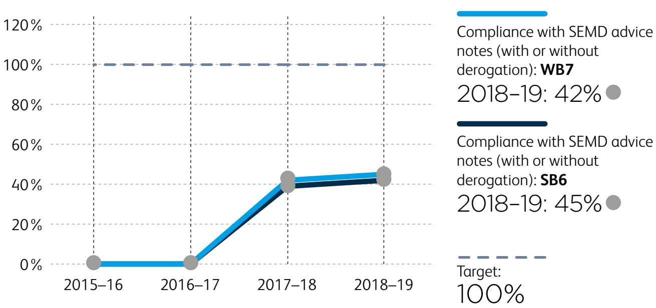


Commentary

This is a measure of the number of properties at risk of chronic low pressure. We outperformed this target.

As per the intention set out in 2017/18, our methodology for this measure has been reviewed, updated and agreed with our CCG. Historically, the validation period was included in a property's time on the low pressure register, meaning that properties where an effective solution has been applied in March, would still be reported at year end. This validation period is now excluded from the register time, which aligns with the low pressure being experienced by our customers. Under the old methodology the year end figure would have been 668 properties; under the adjusted methodology it would be seven properties. We have restated 2017/18 from 206 to six.

Security and Emergency Measures Direction (SEMD)



Commentary

This is a cumulative measure with an end of regulatory period target.

This measure assesses our ability to protect against malicious actions of third parties which may cause disruption to essential water supply and sewerage services.

Preparatory work and installations were undertaken in 2018/19 and will continue in 2019/20 to ensure we meet the target by the end of the regulatory period.

Major investments in wastewater infrastructure

	2015–16	2016–17	2017–18	2018–19	Target
Lee Tunnel including Shaft G: **SB8**	Scheme delivered	Scheme delivered 2015–16	Scheme delivered 2015–16	Scheme delivered 2015–16	To deliver the scheme in 2015–16
Deephams Wastewater Treatment Works: **SB9**	n/a	Scheme delivered	Scheme delivered 2016–17	Scheme delivered 2016–17	To deliver the scheme in 2016–17

Commentary

These schemes were delivered in 2015/16 and 2016/17 respectively.

Performance dashboard continued

Resilient systems and assets continued

Sites made resilient to future extreme rainfall

	2015–16	2016–17	2017–18	2018–19	Target
Ml/d of sites made resilient to future extreme rainfall events – water: **WB8**	–	–	4	747	End AMP 1,015
Population equivalent of sites made resilient to future extreme rainfall events – wastewater: **SB7**	–	–	495,160	962,842	End AMP 1,700,000

Commentary

These are end of regulatory period cumulative measures designed to provide resilience to future extreme rainfall events at water and wastewater sites.

For water we have delivered protection at Waltham Abbey, Coppermills, Hornsey and Lee Bridge water treatment works.

For waste we have delivered improvements at East Hyde and Rye Meads sewage treatment works.

Thames Tideway Tunnel

	2015–16	2016–17	2017–18	2018–19	Target
Successful procurement of the Infrastructure Provider (IP): **T1A** ●	Scheme delivered	Delivered 2015–16	Delivered 2015–16	Delivered 2015–16	Deliver in 2015–16
Thames Water will fulfil its land related commitments in line with the TTT programme requirements: **T1B** ●	13	13	13	3	Acquire land rights development consent order and programme timetable
Completion of category 2 and 3 construction works and timely availability of sites to the IP: **T1C** ●	9	19	21	21	End AMP 23
Thames Water will engage effectively with the IP, and other stakeholders, both in terms of integration and assurance: **T2** ●	–	Effective engagement	Effective engagement	Effective engagement	Effective engagement
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: **T3** ●	Improving trend	Decreasing trend	Decreasing trend	Improving trend	Improving trend

Commentary

All required access was completed in the year in line with the requirements of the Tideway programme.

A survey of relevant stakeholders on the Liaison Committee associated with the Thames Tideway Tunnel project was conducted. Results, in terms of integration and assurance, indicate an assessment of "effective engagement" again this year.

Customer surveys were conducted to measure understanding of the Thames Tideway project and its benefits. When compiled and assessed against previous 2015 – 2020 scores, results for 2018/19 equate to an "improving trend".

RAG Rating and Description

Performance at, or favourable to, our committed performance level for 2018/19, or improving trend for T3

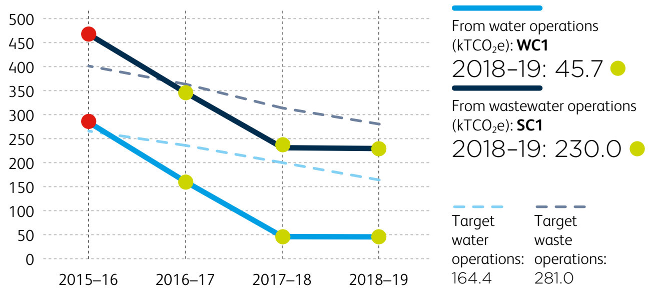
Performance within the range allowed without a penalty (the "deadband") if defined or, if not, within 5 % of our committed performance level, or marginal asset health, or stable trend for T3

Performance below the deadband (if defined) or more than 5 % adverse to our committed performance level

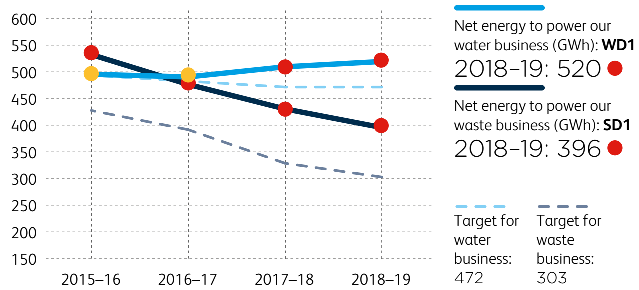
Performance information either not available, not applicable or not relevant

Environmental protection and enhancement

Greenhouse gas emissions



Energy imported less energy exported



Commentary

Since October 2016 we have seen the benefit of our innovative, green tariff electricity supply contract. As a result, we continue to outperform our greenhouse gas emissions target.

Our emissions for wastewater remain higher than those for drinking water production due to the additional gas emanating from sewage.

We are using slightly less natural gas in our wastewater processes as we switch from sludge incineration to advanced digestion. During this process, sludge is heated under pressure to produce increased amounts of biogas; this has supported the continued reduction of emissions. The decision to switch to advanced digestion is expected to halve sludge treatment emissions, now the principal area of emissions for the business.

Commentary

During the sustained hot and dry weather over the summer of 2018 we produced up to 450 million litres a day of extra drinking water to manage customer demand, a 17 % increase on daily production. Putting these extremely high volumes of water into supply required additional energy and we had to turn to more energy intensive options for water production and distribution. This, coupled with below average rainfall, meant reservoir levels dropped substantially. Once we reached the wetter winter period we abstracted more water to recover storage levels and increase resilience and, again, this required additional energy, which was imported and further affected our net energy performance. Consequently, we have not met the 2018/19 water target.

Although we have not hit our wastewater energy target, due to our renewable generation delivering more slowly than expected at Crossness and Basingstoke, we have been successful in continuing to reduce our imported electricity through improved efficiency. March 2019 was the best ever month for generation from sludge, achieving 28.6 GWh which beats the previous record of 28.2 GWh in April 2017.

Abstraction

	2015–16	2016–17	2017–18	2018–19	Target
Abstraction Incentive Mechanism (AIM): **WC3**	Not available	0 (refer to APR table 3C)	-1,676.29	-170.69	N/A

Commentary

The Abstraction Incentive Mechanism (AIM) is an Ofwat scheme to reduce abstraction from sources that are considered to be environmentally sensitive. It is triggered when local rivers fall below an agreed flow. Thames Water has implemented AIM since April 2016.

We complied with AIM at all our sites, individually and overall despite a dry year in which water resources were a challenge and one of our AIM sites was triggered for significant durations of the year.

Performance dashboard continued

Environmental protection and enhancement continued

Environmental regulations

	2015–16	2016–17	2017–18	2018–19	Target
Deliver 100% of agreed measures to meet new environmental regulations for water: **WC5**	Not available	Not available	Not available	Not available	End AMP 100%
Deliver 100% of agreed measures to meet new environmental regulations for waste: **SC8**	Not available	Not available	Not available	Not available	End AMP 100%
Water bodies improved or protected from deterioration as a result of Thames Water's activities: **SC4**	–	–	–	–	13
Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife (kg/day): **SC9**	–	–	–	–	59.3

Commentary

WC5 and **SC8** have an end of regulatory period target of 100%. We are on track to deliver all the agreed measures as listed on the latest version of the National Environment Programme (NEP) and on track to deliver the five year target. This is evidenced by the Environment Agency's EPA report which has reported us achieving all the agreed schemes for each regulatory year to date.

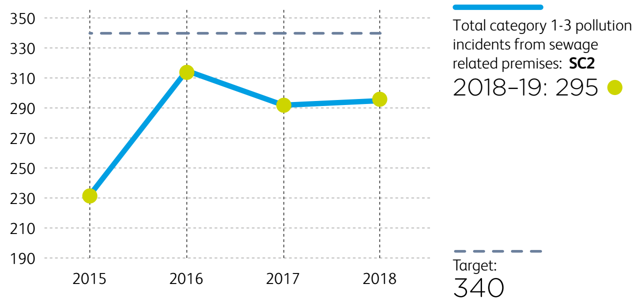
WC5 – In 2018/19, projects included the installation of eel screens at Hampton, Surbiton, Hythe End & Farmoor and river restoration work for Amwell Magna. We also conducted investigations into the impact of groundwater abstractions at Hawridge for the River Chess and Bexley for the River Cray.

SC8 – 2018/19 activity comprised the Beddington sewage treatment works upgrade to meet the new permit limit for phosphorus, 170 Event Duration Monitoring (EDM) outputs and reported data for 25 sites as part of the Chemicals Investigation Programme (CIP).

SC4 – Although we have undertaken activities as planned, we are expecting to deliver three out of 13 sites at end of the regulatory period. This is because the benefits of proving phosphorus reduction in the river is taking longer than expected and can take five to ten years to prove.

SC9 – This commitment has an end of regulatory period target of 59.3 kg/day. Excellent progress has been made on the schemes during 2018/19 for completion in year five, with several sites already in final testing stages.

Total category 1-3 pollution incidents from sewage related premises



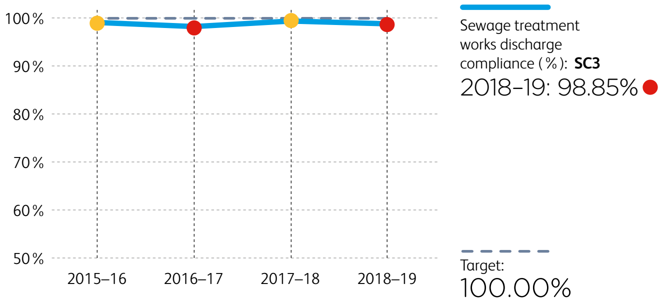
Commentary

Our performance at 295, is well below our target of 340 (calendar year measure). For the first time in ten years we didn't have any category one pollutions, the most serious category.

2018 saw a reduction in incidents involving our pipes; however, an increase from sewage pumping stations and sewage treatment works led to similar overall performance compared to last year.

We're doing further in-depth analysis of root cause data, increasing our use of technology and implementing other new pollution reduction initiatives to improve performance in the coming year. Pollutions have reduced by 46% from five years ago see page 80.

Sewage treatment works discharge compliance



Commentary

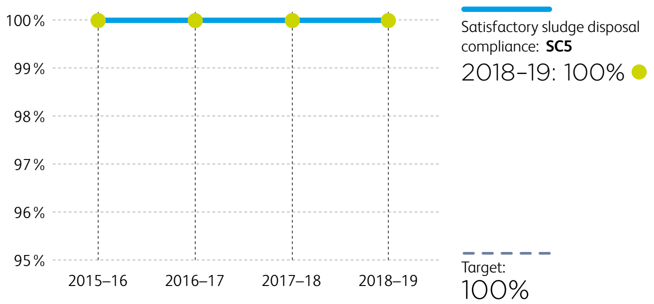
We did not meet our target of 100% compliance, with four failures at our 349 sewage treatment works with a discharge permit and will return £0.12 million to customers at the end of the regulatory period. The failures were at Deephams, Cholsey, Chertsey and Wolverton Townsend during the first six months of the year – there were no failures during the second six months and there have been no failures to date in 2019. We are continuing to focus on day-to-day performance management of our sites. Root cause investigations were completed after each failure to enable us to apply the learnings to reduce the likelihood of reoccurence.

This measure is different to the Environmental Performance Assessment measure that we report to the Environment Agency which includes water treatment permit compliance.

RAG Rating and Description

- Performance at, or favourable to, our committed performance level for 2018/19, or improving trend for T3
- Performance within the range allowed without a penalty (the "deadband") if defined or, if not, within 5 % of our committed performance level, or marginal asset health, or stable trend for T3
- Performance below the deadband (if defined) or more than 5 % adverse to our committed performance level
- Performance information either not available, not applicable or not relevant

Satisfactory sludge disposal compliance

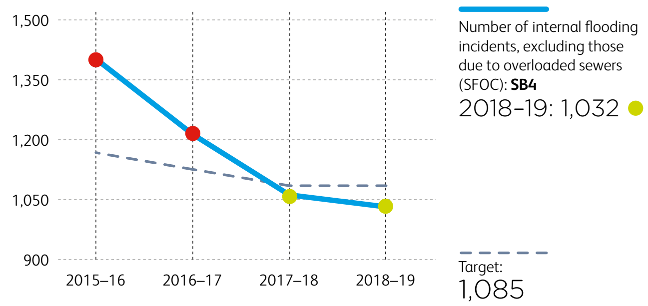


Commentary

This measures our sludge disposal compliance.

100 % of our sludge disposal complies with the sludge use in agriculture regulations, the safe sludge matrix and environmental permit regulations.

Internal flooding incidents (other causes)



Commentary

Our performance against this measure has improved for the third year running and is a 26 % reduction since 2015/16. This performance can be attributed to a greater focus on proactive preventative measures such as increased use of data insight, customer education campaigns, food service establishment visits and the tactical sewer cleaning programme.

These initiatives and others will continue into year five with the expectation that the forecast will be met. This year we have outperformed our target which results in a reward of £2.92 million.

Flooding

	2015–16	2016–17	2017–18	2018–19	End Amp Target
Properties protected from flooding due to rainfall (including Counters Creek project): **SB3**	–	–	19	49	668 (cumulative)
Contributing area disconnected from combined sewers by retrofitting sustainable drainage (hectares): **SB5**	–	–	–	0.241	20

Commentary

SB3 – This is our commitment to protect properties from sewer flooding caused by rainfall events and was historically reported as the total number of equivalent properties protected from our Counters Creek Flooding Alleviation Scheme (CCFAS) and other schemes. This measure captures the benefits of protection we deliver. Our approach to CCFAS has changed and we are delivering through a different mix of solutions. We have set a separate target for "other schemes" to deliver protection benefits of £5.8 million.

We currently forecast that "other schemes" will deliver protection benefits of £5.9 million (equal to 622 equivalent properties) and we are on track to meet the target. Any under/out performance will be calculated at the end of the regulatory period, subject to independent assurance, based on the actual costs and benefits of the specific solutions implemented. We remain committed to protecting properties in the Counters Creek area by 31 March 2020 with a mix of solutions that does not include a strategic sewer. As we are not cancelling CCFAS, and our alternative will provide at risk properties with greater localised protection, sooner and for a lower costs than could be delivered by a strategic sewer, there should be no ODI penalty.

SB5 – We are on track to deliver our target in the current regulatory period. Managing surface water at source through sustainable drainage systems allows us to not only tackle flood risk, but also increase resilience against climate change. Between 2020 and 2025 we are looking to increase our target more than three-fold, providing a wide range of benefits to our customers beyond that of improving asset resilience.

CCG review

Monitoring commitment to customers

Anne Heal, CCG Chair

The Thames Water Customer Challenge Group (CCG) exists as a group which is independent of Thames Water. All water companies in England and Wales have similar groups drawn from a cross section of customers, regulators and other groups who play a part in the life of the region. The Thames Water CCG has two main roles. It monitors whether Thames Water is meeting its commitments and reports to Thames Water customers, the wider public and Ofwat what progress it finds on an annual basis. It also considers whether Thames Water's future plans reflect what customers need and want and reports on its findings to Ofwat.

This is the fourth year of Thames Water's business plan 2015–2020, and is the fourth time the Thames Water CCG has reported on Thames Water's commitments. Thames Water update the CCG every quarter and describe the progress they have – or have not – made.

What matters to customers

Thames Water has faced another challenging year. And, once again, the CCG has to say that issues that are really important to customers, as measured by metrics such as leakage, customer satisfaction and complaints levels, have either worsened or shown little sign of improvement. Thames can demonstrate that this disappointing picture is often due to exogenous factors, such as the weather. But the fact remains that what customers want from Thames is not – in some important areas – yet being delivered. Undoubtedly the weather conditions Thames faced in 2018/19 (a combination of the effects of March 2018's Beast from the East followed by the hot summer of 2018) presented real challenges to its service delivery to customers (in terms of network, operational response and customer service). The CCG appreciates these were difficult situations but continues to urge Thames that it must equip itself to be resilient to such events – especially as extreme weather events are likely to be increasingly common due to climate change.

Leakage and its impacts

Leakage remains a challenge for Thames. The 2019/20 leakage target will require better performance than ever before, and any shortfall against this year's target will potentially have an impact on the next 5 years' performance. Against this background, the ability of Thames to deliver against the ambitious proposed leakage targets for 2020–25 is questionable. This is significant given that customers have repeatedly said that they are unhappy funding future major developments when leakage remains at a high level. Supply interruptions, which customers do not want to experience, were another significant issue last year and Thames has borne substantial penalties as a result. The extreme weather conditions were determined to have played a major part in this, but clearly Thames needs to plan differently to mitigate and, if possible, avoid such significant impacts. It is to be hoped that Thames Water's "freeze thaw" action plan will do that.

Complaints and customer service

During the last year there was a marked increase in complaints across all aspects of Thames's activity and customer satisfaction also fell. It is clear that customers are not happy with the way that they have been dealt with by Thames and, in some instances, it is also clear that their complaints have not been well handled either. While it may be understandable, poor complaint handling is not acceptable and Thames's customers deserve better. The CCG understands that a number of customers are now using a new billing and customer relationship management system and hopes that the phased rollout of this critical system will continue successfully for the benefit of customers.

Making progress sooner

Over the last year, there has been intense focus at Thames on first, the original PR19 submission, and then the subsequent resubmission. In some senses, looking forward and setting out what customers want to see from Thames over the next five years highlights the urgent need for immediate investment, without waiting for the 2020–25 period to begin.

In a few instances, Thames has been able to start making progress earlier. Its approach to vulnerable customers is one such case, and the CCG would wish to commend Thames first for the strategic approach it has taken to the issue and the fact that it is now seeking to make progress towards its 2020–2025 goals within the current timeframe.

Overall, the themes that the CCG has highlighted in past years remain. The fragility of the network, the problem of leakage, the disappointing experience customers receive are all challenges which it has proved hard for Thames to address and progress. The CCG recognises that Thames has sought to become a very different company in the last couple of years, with a real desire to listen to customers and to act on what they hear. The CCG hopes that the new leadership team will be able to take these and other issues forward creating some real momentum in critical areas.

Listening and responding to our stakeholders

Engaging a wide group of stakeholders through a comprehensive long-term programme enables us to understand their expectations so we can balance their interests as we make business decisions.

Customers

We provide essential services to over 15 million customers every day

What they expect

- To be treated as individuals
- A clear plan for the future, ensuring long-term resilience and future supply
- A personal, proactive service, resolving issues quickly and efficiently
- A safe, dependable wastewater service; reducing sewer flooding
- A safe, dependable water service; including a constant supply of high quality water and leakage reduction
- A responsible, ethical and transparent company that supports low income and customers in vulnerable circumstances and improves and protects the quality of the rivers

How we engage

- Day-to-day engagement via the channel of their choice including social media, phone, text and letter
- Engagement events in the community
- Media and advertising campaigns
- Smarter Home Visits
- Education programme
- Customer research focus groups
- Customer immersion sessions
- Access to our sites such as Walthamstow Wetlands
- Via our website

Outcome of the engagement

Effective engagement with customers is integral to understanding their needs and preferences, so we can focus on what matters most. We also engage regularly with our Customer Challenge Group.

Working in partnership with our customers to reduce demand for water and reduce sewer blockages puts less pressure on the environment's natural environment and drives cost and operational efficiencies.

Employees

We employ over 6,500 employees. They are our most important asset and are critical to the service we provide

What they expect

- To be connected through a clear vision, with clarity on where we are heading and what success looks like
- An inclusive environment where they have the opportunity to give views and ideas that are listened to Managers who live our values through their own behaviours and who recognise, reward and develop their teams

How we engage

- Annual employee survey – Hear for you
- Internal communications channels at corporate and local level including our internal magazine, senior management meet and greets, Yammer, blogs and video updates
- Manager 1-2-1s and team meetings
- Manager conferences

Outcome of the engagement

Proactive engagement and an inclusive environment creates the conditions for employees to offer more of their potential and provide a better service to our customers. Our digital transformation included the team's alignment with the "One Thames" structure, investing in skills investment and Service Desk in-sourcing. Results of the latest employee engagement survey saw the engagement score for Digital increase by 14% and we saw a 27% increase in people in Digital feeling that Thames Water is a great place to work.

Investors

Our debt and equity investors play an important role in funding our investment needs which allows us to serve the long-term interests of customers and the environment

What they expect

- An open dialogue with the business, in order to understand performance, opportunities, risks and challenges

How we engage

- Equity investors have direct communications with the Board and Executive Directors, with four external shareholder representatives sitting on the Board
- Regulator information disclosures
- Investor calls to discuss performance
- Making relevant information available on our website
- Face-to-face briefings and site visits

Outcome of engagement

External shareholders are committed to prioritising the long-term security of supply and are supportive of the notion that financial returns should flow from good business performance. Engagement is a valuable tool to obtain constructive advice and different viewpoints from shareholders and investors

Regulators

Our business is managed through a regulatory framework. Our main regulators are Ofwat, the Drinking Water Inspectorate, the Environment Agency, Natural England and Historic England.

What they expect

- To understand our business strategy
- Proactive engagement about performance, in line with agreed targets, and issues that could have an impact on our customers and the environment
- For us to work collaboratively with regulators and peers to help shape the future regulatory agenda and drive maximum benefit for customers and the environment

How we engage

- Engagement at all levels across the business including the Board and senior management
- Regular performance meetings
- Day-to-day operational meetings
- Long-term strategic planning
- Hosted events at our sites

Outcome of engagement

Our regulators understand our business decisions and act as an important sounding board. Engagement supports regulators in considering the impact of regulatory decisions and new policies on the industry. Fostering strong, trusting relationships means we can openly discuss issues and opportunities, while respecting their roles as regulators and ours as a service provider

NGOs and community groups

Many community groups and non-governmental organisations (NGOs), particularly those focused on the natural environment, take a keen interest in our activities

What they expect

- For us to make a positive contribution to the community, biodiversity and the wider natural environment, minimising our environmental impact
- To proactively engage on local projects and initiatives which will directly affect them

How we engage

- Meetings to understand their views on work taking place in their areas and to inform neighbourhood plans
- Develop partnerships to deliver projects and programmes such as those with Age UK, Citizens Advice Bureau and debt advice charity Step Change
- Face-to-face engagement
- Through the Blueprint for Water coalition, which is made up of organisations with an interest in water policy, including WWF, RSPB and the Wildlife Trusts

Outcome of engagement

They are armed with a greater understanding of our community work and improving environmental performance. Partnership working is instrumental to our smarter water catchments work to improve river water quality and the opening of our sites, such as Walthamstow Wetlands. Collaboration also increases the reach of our "Bin it, don't block it" and water efficiency messaging

Media

The media helps us to communicate our news to our customers in different ways. Appearance in the media extends our reach and is a valuable way to deliver key messages and share information with our customers

What they expect

- For us to be open and transparent
- For us to be available to provide information during emergencies around the clock

How we engage

- Regularly offering news stories, filming opportunities and sharing information
- Media briefings

Outcome of engagement

Our news story-telling approach has increased engagement and positive media coverage in the past 12 months. Although there will always be differing opinions about the business decisions we're making, the media has helped raise awareness about the issues that matter most, including water resources and our future plans

Suppliers

Suppliers are a critical part of the effective delivery of water to our customers. We need confidence that the organisations we choose to work with have shared values and support our vision, and that they are able to help us deliver on our services to customers

What they expect

- Clear and honest communication
- For us to share information that affects their businesses as early as possible so mitigating plans can be made
- Information about upcoming opportunities
- To understand how we view their performance, whilst being given the chance to feedback on our processes

How we engage

- Direct emails and newsletters
- Discussing best practice at health and safety conferences and category forums
- Review performance at quarterly meetings
- Facilitate engagement with our operational teams via on-site "meet the supplier days"
- Engagement with the wider supply market through high profile pre-tender market engagement and launch events
- Host "innovation exchanges" to encourage new solutions and partner with organisations representing the supply chain

Outcome of engagement

Engagement helps build a diverse supply community. It keeps us at the forefront of market trends and allows us to develop our operational approach alongside our supply chain, to assist the delivery of our strategic priorities. It provides insight to help mitigate risk, improve resilience and drive added value for customers

Policy makers and elected representatives

Policy and legislative changes have a significant influence on the water sector and, therefore, our business activities and strategies. Councillors and MPs are interested in how our activities affect the people they represent

What they expect

- For Thames Water to have the best interests of constituents and the national interest at heart
- To support economic prosperity in the regions we serve
- To play an active role in shaping the future direction of the sector

How we engage

- We engage on a wide variety of issues through a structured programme of discussions with MPs, peers, Council leaders and London Assembly Members
- We discuss policies affecting water and the environment, and changes to legislation
- We invite stakeholders to our sites and projects to give them first-hand experience of Thames Water
- We hold memberships with influencing groups such as London First and BiTC which help magnify our voice to policy makers
- Through Water UK and EurEau we are able to influence policy at a European level

Outcome of engagement

Feedback provides insight to improve delivery of projects in the communities we serve and inform future plans. It supports successful delivery of major projects like the Thames Tideway Tunnel and site upgrades. It keeps us close to changes to policy that affect the regulatory environment in which we operate

Our commitment to becoming more sustainable

Richard Aylard CVO
Sustainability Director

Introduction

The long-term health of the environment has an impact on our ability to serve our customers and we're committed to being as sustainable as we can to secure the provision of our essential services for many years into the future.

Our social contract

While the safety and wellbeing of the people in our region is our number one priority, delivered through the provision of high-quality water, sanitation and safe operational practises, our responsibilities to our people as well as communities, and the wider world around us, go much further (see "Being socially responsible in the community" on page 86 and "Being socially responsible to our people" on page 88)

As reflected in our strategic priorities, we're committed to protecting and enhancing the environment in everything we do, from working with stakeholders to improve river quality and protect biodiversity, to reducing the impact of our operations (see page 80) and minimising waste. With 100% of sewage sludge already being put to beneficial use, we're making headway.

Recognising the ever-increasing threat of climate change on our business, we've made some important commitments, reflecting our promise to be an environmentally responsible provider of water and wastewater services. 2030 will be an important milestone year in our commitment to sustainability. In April 2019 we set ourselves the challenge to achieve net zero carbon emissions by 2030.

Playing our part in the plastic revolution, we're working with our customers to promote the benefits of consuming our high-quality tap water at our tap bars instead of using water bottled in single use plastics.

Following years of raising awareness of the problems associated with flushing the wrong things down toilets and drains, we're also delighted to see the launch of the "fine to flush" label, indicating which wet wipes are safe to flush. We hope this will drive a reduction in the use of plastic-based wet wipes, which not only clog our sewers, but pollute our rivers and oceans.

Within the business, we're committed to minimising our use of plastic and reducing its impact on the environment as well as helping the UK achieve its target of eliminating all avoidable plastic waste no later than 2042.

Our sustainability themes

At the heart of our sustainable thinking are nine sustainability themes making up our sustainability policy. We use these as our guiding principles to help us make the critical decisions that safeguard the delivery of our services to customers over the long term.

They are:

- Water, a precious resource
- Providing sustainable drainage
- Climate change adaptation
- Mitigating climate change
- Ensuring responsible operations
- Enhancing customer inclusion
- Delivering efficient operations
- Sustainable and safe workforce
- Long-term sustainable investment

Governance

Our Sustainability Director and the Executive team have responsibility for the creation and delivery of our sustainability and climate change policies and plans, with oversight from our Board.

Supporting the UN Sustainable development goals

UN Sustainable development goals

Akin to our purpose – to **build a better future for our customers, our region and our planet** – the United Nations Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

As a water and wastewater company serving 15 million customers in the South East of England, the equivalent of almost 25% of the UK population, we have decided to focus on the specific Sustainable Development Goals, where we think we can make a real contribution, however, we fully support the aspiration of all 17 related goals.

SDG 6
Clean Water and Sanitation

Our target

100% compliance with drinking water quality target set by Drinking Water Inspectorate

Security of supply (SOSI) index of 100 for the growing population

Agreed maximum of 340 pollution incidents for 2018

Target to reduce pollution incidents by 30% between 2020 and 2025

Progress

99.96% water quality compliance

98 out of 100 for SOSI

295 pollution incidents during 2018

SDG 7
Affordable and Clean Energy

Our target

Self-generate 517 GWh of renewable energy by 2025

Use 100% renewable electricity

Progress

We use 100% renewable electricity

We self-generated 22% of our own electricity during 2018/19

SDG 12
Responsible Consumption and Production

Our target

15.45 Ml/D to be saved by the end of the regulatory period through issuing water efficiency devices.

To recycle 100% of wastewater

Progress

We have delivered 28.25 Ml/D including our smarter home visits programme which has driven a 19.6 Ml/d reduction in the amount of water customers are using, since it was launched in 2015

100% of sewage sludge put to beneficial use, including recycling as fertiliser to land

Introduced a new initiative to convert residual incinerator ash to synthetic aggregate

We self-generated 22% of our own electricity during 2018/19

SDG 13
Climate Action

Our target

Net zero carbon emissions by 2030

Security of Supply Index (SOSI) 100%

Self-generation of electricity

Use renewable electricity

Security and Emergency Measures Direction 100%

Progress

We cut our greenhouse gas emissions by 0.8% during the year from 277.9 $ktCO_2e$ to 275.7 $ktCO_2e$

We use 100% renewable electricity

We produced 22% of our own electricity during 2018/19

Protecting the natural environment

With the natural environment being one of our critical "stakeholders" we are committed to protecting and enhancing biodiversity at our sites and reducing the impact of our operations.

Highlights

Zero

category one pollutions

46%

decrease in total pollution incidents over the past five years

47

chalk streams in our region

Caring for natural habitats

We manage 12 sites of specific scientific interest (SSSI) covering 50.89 hectares, with 99% classified as "favourable" or "unfavourable recovering" by Natural England. In 2018/19 we increased biodiversity at five of our sites, spending £56,500 on five projects including fish restocking at Walthamstow wetlands and the creation of a wildflower meadow at Hogsmill nature reserve. We've committed to quantify the natural capital stocks of our land holdings and report during the next regulatory period.

With 47 of the UK's 224 chalk streams in our region we're committed to protecting these rare and biodiversity-rich sites. One of these streams is Letcombe Brook in Oxfordshire; to protect some of our most "at-risk" plants and wildlife living in the stream, including brown trout, we're constructing a £14.5 million, 6km pipe to supply customers from groundwater boreholes rather than the stream. In advance of the work, our archaeological contractors discovered an Iron Age settlement containing an array of well-preserved artefacts, including 26 human skeletons.

Our sites are home to a wide variety of species of plants, some of which are critically endangered and require protection. Tower Mustard is a tall plant which now only grows at 25 locations in the UK, including Stain Hill Reservoir in Richmond. It is facing high risk of extinction in the wild and is listed as a Priority Species under the UK Biodiversity Action Plan. To protect this rare plant, we have installed special fences and enforced specific mowing regimes to prevent it from being smothered. Our work at the site has maintained the population of this valuable species.

Reducing pollution

As well as launching our Smarter Water Catchments initiative to improve river quality (page 57), we're committed to ensuring our wastewater network is working as it should, to reduce the likelihood of pollutions both to water courses and in the community.

While total pollution incidents are broadly in line with 2017 (2018: 295; 2017: 292), for the first time in ten years we had zero category one pollutions, which are the most serious. (Category one 2018: 0; 2017: 3). Total pollution incidents (Category 1 – 3) are 46% lower than five years ago, and we're working hard to drive a further step change in reductions. As well as being in the early stages of creating a more intelligent network through the installation of sewer depth monitors, so we can be more proactive in our repair and sewer cleaning programme, we've improved training for customer call agents to help them identify early pollutions. They are being given the tools and "know-how" to use information provided by the caller, combined with the risk profile of the area as categorised on our pollution risk register, to prioritise the most urgent work.

During the year, we surveyed 232 and renovated 27 sewers near railways, such as King's Scholar Pond (page 60), to ensure resilience of this critical infrastructure.

Becoming more sustainable: Environment continued

A climate resilient future

Climate change is already happening. Combined with population growth, it puts intense pressure on precious water resources and poses one of the biggest risks to the sustainability and resilience of our services (see risks page 39). As such, our twin-track approach to tackling it, focused on adaptation and mitigation, is rooted in the way we operate our business, and has formed part of our business decision making for many years. We align with Task Force on Climate-related Disclosures (TCFD) equivalent principles, evaluating the risks, opportunities and our responsibilities associated with climate change.

Being responsible – our climate change targets

Zero net carbon emissions by 2030

We've made an important pledge to reduce our net emissions to zero by 2030. It is a challenging target and we will be building on our longstanding commitment to be more sustainable, to ensure we're able to meet it.

Before our April 2019 commitment, we'd already made a commitment to reduce our greenhouse gas emissions (scope 1 and scope 2) by 34% between 1990 and 2020, with a 75% reduction in our net emissions and a 44% reduction in our gross emissions achieved by this year.

Use renewable electricity to power our operations

We're already procuring 100% renewable electricity to power our operations, following our agreement with a green tariff electricity supplier.

Self-generate electricity

During 2018/19 we self-generated 22% of our electricity needs from sewage (281GWh), wind (5GWh) and solar power (12GWh).

Security of Supply Index

This measures our ability to provide water in a dry year. During 2018/19 we have made progress towards restoring SOSI and are now at 98% (2017/18: 97%).

Opportunities

- Increasing public engagement with the threat of climate change increases the opportunity to work with customers to reduce water demand
- Self-generating our own electricity reduces costs – during 2018/19 we produced the equivalent of £32.6 million of electricity to power our operations.
- We will use the new UK CP18 climate projections to aid our planning process, with our Water Resources Management Plan (WRMP) looking ahead 80 years.

Planning and risk management

Long-term planning

Climate change is a business risk, monitored and managed by our Audit, Risk and Reporting Committee. During the year we submitted our draft Water Resources Management Plan, outlining how we will ensure the sustainable delivery of water to our customers over the next 80 years, in the face of population growth and climate change, based on the best available information. Our drainage and wastewater management plans, although not yet on a statutory basis, use the same information. We also have a drought plan in place, identifying the actions we will take to protect supplies to our customers during periods of exceptionally dry weather.

Managing the day-to-day – adverse weather resilience

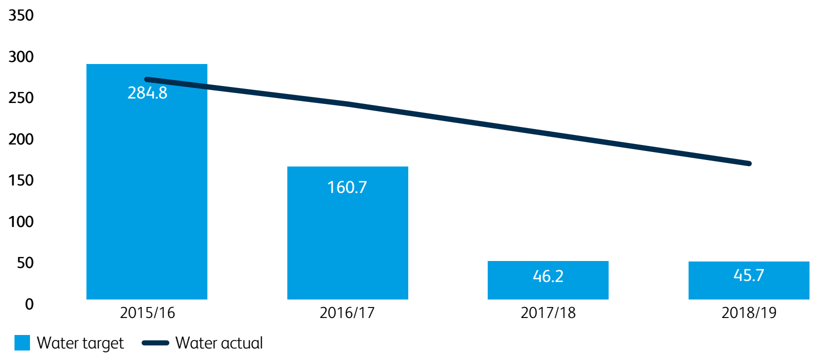
We have a robust day-to-day process in place for predicting and responding to adverse weather, with an increased focus on wet weather readiness during peak seasons. We use "storm-chasing" to analyse weather data and predict where heavy rainfall could have an impact on our network.

During the year we signed a commercial lease for a bottling plant, outside our region, to ensure we're able to provide bottled water to our customers during supply interruptions. This was a direct response to the impact of last year's "freeze thaw" incident, increasing our resilience against all water supply interruptions, whatever the cause.

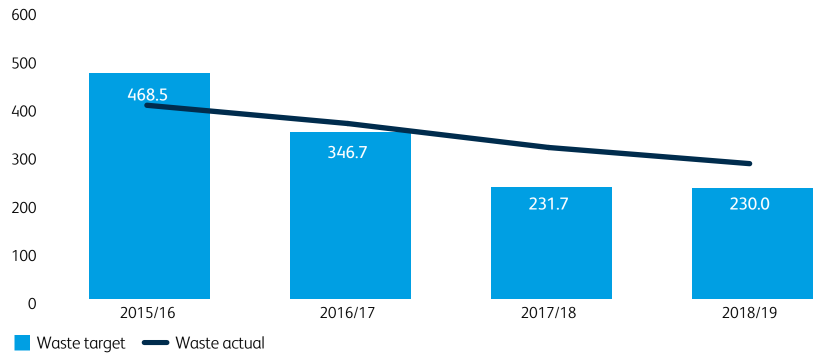
Climate change reporting

Every five years we produce a climate change review assessment, as required by the 2008 Climate Change Act, to ensure we're evolving our activities with the changing pressures, and to report on our performance. Our next review is due in 2020 and will cover a wide range of climate-related disclosures.

Greenhouse gas emissions from water operations in $ktCO_2e$ – WC1

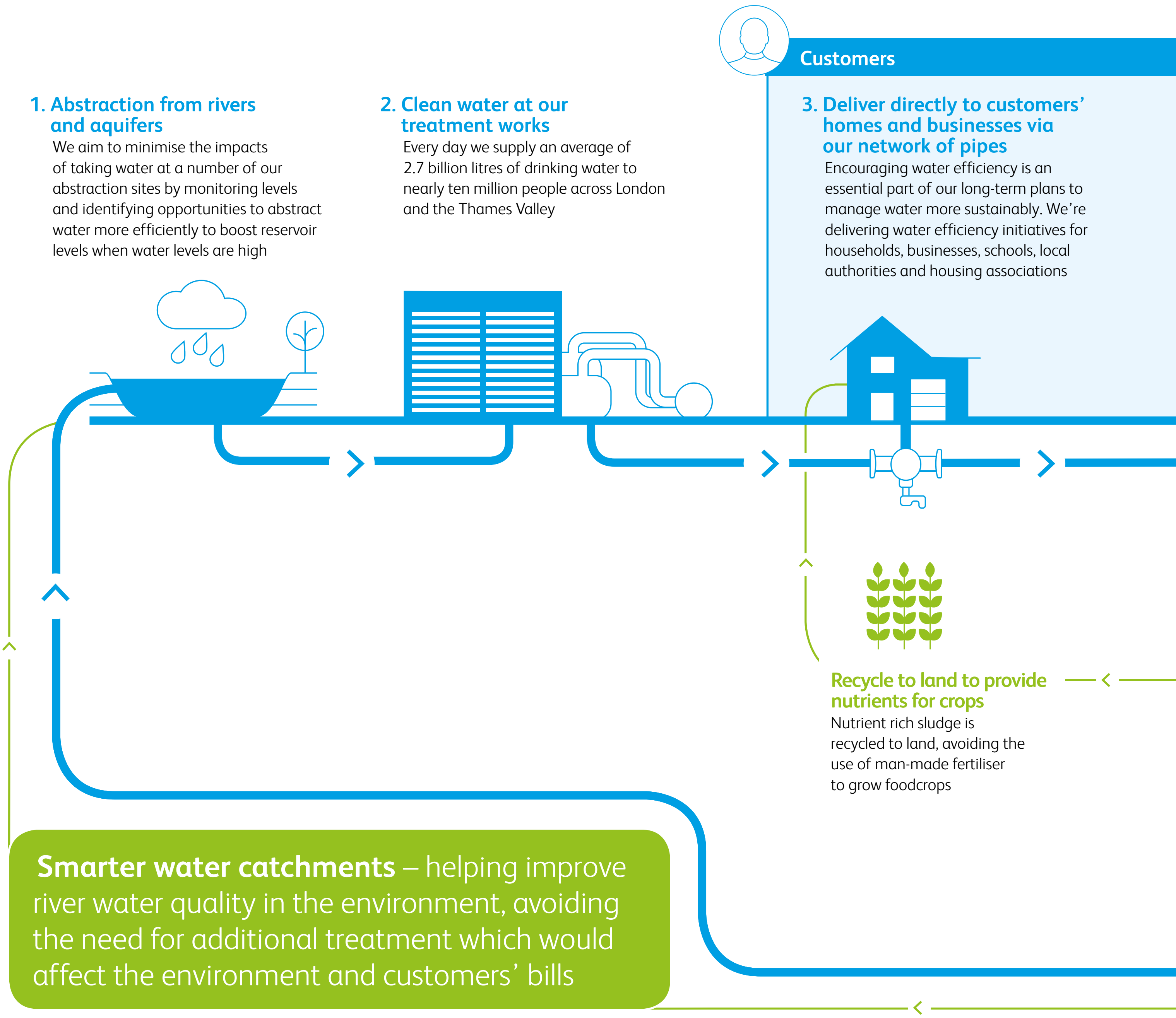


Greenhouse gas emissions from waste operations in $ktCO_2e$ – SC1

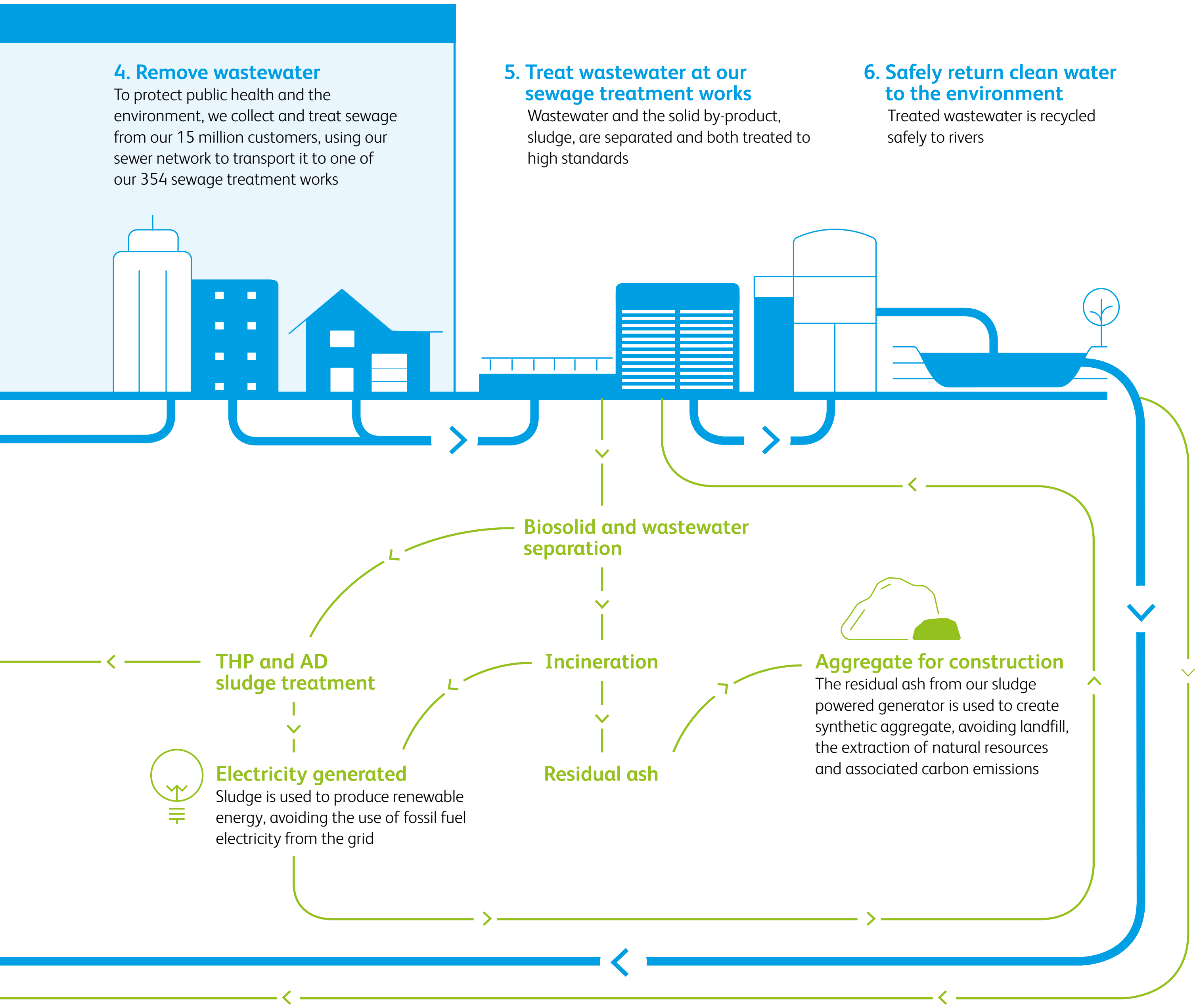


Our contribution to the circular economy

We move more than seven billion litres of water and wastewater every single day, through our essential services, in a circular way – the water treatment cycle is the ultimate circular economy. We're committed to driving efficiency in this cycle and to making wider contributions to the circular economy.



With population growth, combined with the pressures of climate change reducing the amount of water we use is critical to the long-term provision of our services. As well as our commitment to tackle the leakage from our network, we've been working with customers to reduce the amount of water they use through our smarter home visit initiative.



Being socially responsible in the community

As a responsible provider of essential services to over 15 million people, we are committed to serving the diverse communities in which we operate, from rural villages in the Cotswolds to boroughs in Central London.

Highlights

41%

increase in numbers on social tariffs

9,110

customers added to the priority services register, our biggest increase

1,993

customers took part in Thames Water biodiversity events at our sites

WaterAid

£269,000

raised for WaterAid

Caring for customers

Building on 2018/19's 41 % increase in the number of customers helped by our social tariffs (see page 4), we're collaborating with utility and "third sector" partners, to deliver our ambition to help 200,000 families in financially vulnerable circumstances by 2025. Our "customer assistance fund" supports customers who genuinely cannot pay their bills and helped 6,742 customers with a total of £4.5 million during the year. We also donated £645,000 to the independent "Thames Water Trust Fund", which funds organisations providing debt advice to our customers, and gave grants for over 1,400 customers to receive life-changing, essential items, such as fridges and washing machines.

Our Priority Services Register provides additional support for customers in vulnerable circumstances who need assistance, whether it's for a bill enquiry or during a supply interruption. In 2018/19 we saw the number of customers on our register grow to 69,130 with 9,110 customers joining in the year, our biggest growth year – our goal is to increase numbers on the register to 410,000 by 2025. To do this we are working with a range of partners including Thames Valley Police and the British Red Cross to proactively identify customers who could benefit from this extra support. In January, we hosted a conference at Age UK's London headquarters, bringing together over 30 organisations representing older customers, with the aim of increasing awareness amongst their members of the support services we offer. During 2018/19 we were also proud to be involved in the introduction of a social pre-scribing initiative, through which local GPs prescribe patients to spend time at our wetlands to improve their wellbeing.

Investing in communities

As part of our industry-leading community investment programme we supported eight community projects with an investment of £376,000 in 2018/19. The initiative sees us invest in opportunities to encourage public access to our sites, improve water-related visitor attractions, deliver essential environmental and wildlife improvements and protect cultural heritage. Walthamstow Wetlands, one of our operational sites and home to Europe's largest urban wetlands, has seen 544,829 visitors since opening in October 2017, and this year also saw us support the opening of a new wetlands nature reserve at Enfield Lock.

Our "Time to Give" programme encourages employees to connect with their local communities. In 2018/19, 1,159 of our colleagues spent 7,658 hours taking part in voluntary activities including river restoration projects, painting schools and helping in hospices. It also provides opportunities for personal and professional development, including serving as a school governor. To help those outside of our region, in 2018/19 we raised £269,000 for WaterAid, a charity we've supported for 37 years, with a further £24,000 of income pledged. Our signature campaign, "Thames loves Malawi", uses these funds to work with local communities and share the knowledge and means to make tangible and sustainable improvements in two towns in Malawi, which previously had no access to clean water.

Joining forces with our customers

We believe in the power of customer participation to fulfil our purpose. Following the discovery of the "Whitechapel fatberg" in September 2017, we worked with the media, stakeholders and customers to raise awareness of the impact of flushing wet wipes down the toilet and to encourage people to change their flushing habits. There's still a way to go to eliminate fatbergs and we're also working with commercial kitchens including fast food establishments, hospitals and schools to encourage better disposal of cooking fat. April 2019 saw the emergence of another vast beast – the "concreteberg" in Islington, London raising awareness of the cost to customers of this kind of sewer abuse.

Our smarter home visits programme has led to a 19.6Ml/d reduction in the amount of water customers are using since it was launched in 2015. Designed to help customers understand how and where they can reduce water usage in their homes, including how to detect a "leaky loo", we completed our 250,000th visit just after the close of the year. Working with our customers we can help save water and reduce their water and energy bills.

Respecting our neighbours

50 % of the pipes laid are under roads and verges, so our work inevitably causes traffic disruption, particularly in densely populated areas. We're committed to doing everything we can to make things easier for our customers while we carry out our essential repair and maintenance programme. In 2018/19 we piloted a scheme with other utility

companies to better coordinate our work, and identify opportunities where working together may be possible. Building on our culture of innovation, in October 2018 we introduced a new micro vacuum excavator which reduces the space needed to dig, so work can be done on pavements, rather than in roads.

Preparing for population growth in our region is a critical area of focus for us and we are mindful of the impact of building new water and wastewater infrastructure to service new housing developments. Over 6,500 homes are due to be built across multiple developments in the Wantage area of Oxfordshire, significantly increasing the population. This would exceed the capacity of the sewer running through the town centre, so we're working with the developers and building a new pumping station and sewer to divert wastewater flows. This long term planning avoids enormous disruption to residents, removing the need to repeatedly dig up the town centre therefore preventing road closures, and also frees up capacity within the current sewer for inevitable further population growth.

Odour is a side effect of the wastewater treatment process and can understandably be an issue for our customers living nearby. Many of our sites were originally built well away from residential areas, however population growth has led to housing developments now being much closer to our sewage treatment works. We're committed to reducing odour for these neighbouring communities and in 2018/19 we delivered odour reduction work at Deephams, Camberley, Bicester and Beddington sewage treatment works. We monitor odour levels from these sites to make sure the investment we've made continues to benefit our customers.

Contributing to the regional economy

How we buy products and who we buy them from can have a significant impact, not only on the efficiency of our operations, but on the environment and the communities we work within.

We're committed to more sustainable procurement and introduced a revised Supply Chain Sustainability Policy in 2018/19. It outlines our vision, values and a shared set of goals, to deliver real benefits to our customers and help us become a more sustainable business. To be successful we must work in partnership with our supply partners who are encouraged to identify low carbon and waste reduction alternatives, such as using renewable electricity and lowering fuel usage. During the procurement for waste tankering, we worked closely with our supply partners to introduce more efficient vehicle utilisation, as well as optimising journeys through computerised route planning. This comprehensive planning and increased efficiencies will reduce our carbon foot print.

We worked with c.3000 companies of varying size, spending c.£1.8 billion during 2018/19. Of these suppliers, we paid 90.5 per cent of all our invoices, totalling more than 160,000, in line with our agreed payment terms. On average we take 56 days to pay a supplier on receipt of a correct invoice. When setting up payment terms, we take into consideration the size and situation of our suppliers, particularly our small to medium-sized suppliers. Where possible, we try to remain flexible and consider each supplier on a case-by-case basis.

Promoting skills for the future

Directly employing 6,633 people, we're a major employer in our region. To ensure the sustainability of our workforce, we're building relationships with schools and colleges across our region. We're sponsoring the London Design and Engineering University Technical College, continuing to work closely with both Reading and Swindon University Technical Colleges and developing new partnerships with The Leigh University Technical College and University Technical College Oxfordshire. The growth in science, technology, engineering and maths' (STEM) skills is crucial to the future of our industry, and we're also working in primary schools to engage pupils in these core skills.

The Skills Accord is an Energy and Utilities initiative promoting sustained investment in the skills our sector needs most. As lead signatories on the Skills Accord, we have committed to address sector-wide skills gaps and shortages and to promote relevant skills development across the supply chain through procurement.

Engaging our young customers

We're passionate about our future customers and are committed to engaging with every school age child in our region to encourage them to consider their role in the water cycle.

This year, our long-running education programme saw us engaging with another 24,897 young people, as well as opening our sixth education centre, based at Longreach, to allow children to see first-hand the sewage treatment process. We will be opening another new centre at our newly upgraded Deephams sewage treatment works during 2019/20.

As part of our community education programme, we also use angling to promote well-being and social inclusion, and to teach young people about the environment and sustainable water usage. The Walthamstow Angling Academy is a popular fishery at our Walthamstow site, providing an opportunity for experiential learning and engagement with nature in an urban environment. During 2018/19, nearly 1,000 members of the community, including 866 young people between the ages of 4 and 18, took part in school or community group events and family fishing sessions.

Mental health is a key area of focus for us, as we seek to support our colleagues and our communities and reduce the stigma surrounding mental health illnesses. In support of this goal, our education team visited schools during Children's Mental Health Week, where pupils spoke about their concerns over exam stress and future careers in roundtable discussions.

Becoming more sustainable: People

Being socially responsible to our people

Our people are at the heart of our vision of delivering excellent service for our customers. We are focused on recruiting and retaining the best people and providing them with support and opportunities to maximise their potential.

Highlights

Gender pay gap

10.4%

2018: 10.8 %

Record

41 days

without a lost-time injury

Employee engagement

71%

Jumped

25 places

in the Stonewall Workplace Equality index

Developed new mental health best-practice guidelines in partnership with Mental Health First Aid England.

Our people and culture

Our strategic priority – to build a collaborative and capable team dedicated to serving customers – requires us to have the right people, with the right mindset, skills and tools, to support our customers at the right time. Underpinning this strategic priority are our "people priorities" (page 58), which identify how we build a working environment and high-performance culture which inspires us to live our values, grow personally and professionally and focus on exceeding our customers' expectations every day.

We are focused on recruiting and retaining the best people and providing them with support and opportunities to maximise their potential. By providing an employee experience which develops, challenges and supports our dedicated workforce, we can create teams of true customer advocates.

As a responsible employer we ensure everyone is provided with the same opportunities and is treated with respect, irrespective of their age, disability, gender, marriage or partnership status, pregnancy and maternity, race, religion and belief or sexual orientation.

Promoting equality, diversity and inclusion

At Thames Water our customers and colleagues have a diverse range of backgrounds, beliefs and customs. We can serve our customers, support colleagues and work better together if we have a diverse and inclusive workforce.

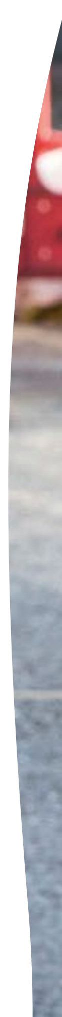
We need our people to be able to bring their whole selves to work – we've worked hard to build a culture of inclusion and belonging in which people feel safe, heard and respected and where everyone has an equal opportunity to contribute and progress their career.

As part of the Energy & Utilities Skills Partnership and supporting our goal to be an inclusive, great place to work reflective of the communities we serve alongside over 30 other companies in our sector we pledged to take collective action to drive change and work together to promote and nurture greater diversity and inclusion across our employee base.

We are proud to be a Stonewall LGBT+ diversity champion, working to create a more inclusive, gender equal, empathetic environment. Our position in the Stonewall Equality Index rose 25 places in the year due to our wide-ranging inclusion programme. Our LGBT+ network, sponsored by one of our Executive Leadership Group, has worked hard to expand the knowledge and understanding about LGBT+ issues and promote the role of all of our employees as supportive allies. We recently launched our Transgender and Non-Binary guidelines as a resource to support everyone across the business, providing definitions of key terms and an idea of the journey that someone who is transitioning experiences.

Our Black, Asian and Minority Ethnic (BAME) Mentoring Circle events offer face-to-face support, advice and guidance to help jobseekers from BAME backgrounds. Senior managers have joined the circle sessions to pass on their knowledge and advice. Since the project's launch, dozens of participants have subsequently found employment. We also run several employee support networks, including the BAME diversity and inclusion champions, which meet regularly, and a working group supporting the company to deliver our culture, inclusion and engagement strategy

We launched our inclusion cards during National Inclusion Week, which aim to start conversations in team meetings to encourage everyone to consider how we can collectively build a more inclusive working environment. This approach has now been shared with many other businesses who had heard of the good work we are doing to challenge our own thinking and aspire to do better.




Thames Water
multi PRO 56
MaxiFlex

Our gender pay gap as at 5 April 2019

Embracing diversity in all its forms makes us both stronger and more effective as a company, leading to a better service for our customers.

At Thames Water we recognise that people are at the heart of everything we do. We are building a better future for our customers and our region, creating customer advocacy and enhancing the environment we rely on. To help us succeed in our goal we are continuing to attract and retain diverse talent representative of the communities we serve, in an inclusive culture and working environment that inspires people to respect and value everyone.

Pay gap

We are pleased to be able to report that, as with previous years, our mean gender pay gap has continued to reduce. As at 5 April 2019 our mean gender pay gap is now 10.4% which has reduced from 10.8% at 5 April 2018. We are additionally pleased to report that our median pay gap has also reduced, down from 12.5% as at 5 April 2018 to 12.2% as at 5 April 2019. This is as a result of an increase in the number of women within Thames Water in our upper pay quartiles.

Bonus gap

Our average (mean) bonus gap is 33.5%, while the median bonus gap has reduced to 13.6% in favour of men. 9.5% of our employees are eligible to receive an "annual management bonus" but under gender pay gap reporting rules, bonus payments include long service and recognition awards. The proportion of females receiving an annual management bonus is 6.4% compared with 6.7% for men. However, if we include money-based awards the proportion is 34.2% for females compared to 32% for men.

Reasons for our pay gap and plans to reduce the gap

As is common across our sector, the main reasons for our gender pay and bonus gap is that there are more men than women in senior roles as well as more men in roles that attract shift pay and other working pattern allowances.

Specifically, under bonus payments, 73.83% of our long service awards, which are typically between £100 and £1,000, were awarded to men reflecting the industry wide pattern of having more men with longer service.

Reducing the gender pay gap

As a business we have continued to take positive steps towards reducing our gender pay gap, in February 2019 we partnered with more than 30 companies from across our industry to launch sector-wide inclusion commitments, tackling the challenges we face together.

The average percentage of women employed across our sector is 16%. So whilst we are proud that 33% of our team is female, we recognise that it will take time for people to progress their careers with us. In the meantime, we continue to inspire women to consider careers in STEM as well as nurturing and supporting female talent once they have joined us to realise their full potential.

During the past year we launched One Thames, restructuring our business to ensure we are set up to best enable us to deliver for the future. Led by a team of Executive leaders of which as at 5 April 2019 22% was female.

Since April 2018:

55%

of people who were promoted into a management grade are female

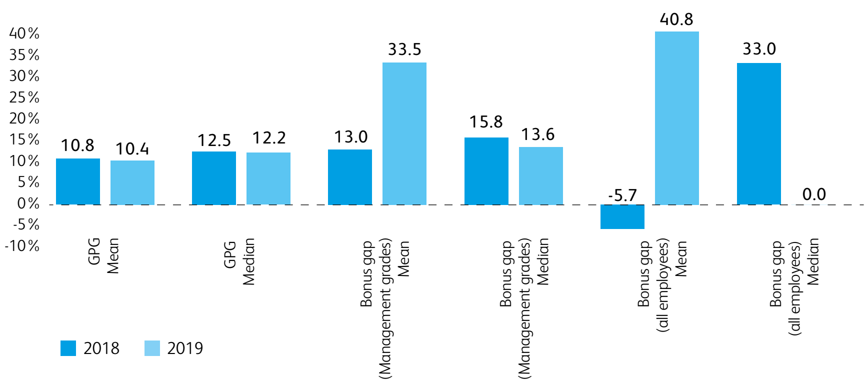
35%

of those recruited to our 2018 graduate programme are female

Over the past year our Women's Network for women and champions of women, has helped create "Balance for Better" by facilitating a number of confidence building, personal brand and career development workshops for hundreds of employees across numerous sites. Each year we also celebrate events such as International Women's Day and International Women in Engineering Day with members of our senior leadership team and partner organisations, inspiring people with their stories and providing networking opportunities.

In addition to employees citing increases in confidence and achievements, our annual engagement survey showed an increase in people feeling that Thames Water is an inclusive, equal opportunity employer. We will continue not just as a standalone company, but as a sector, to jointly decrease the gender pay gap.

Gender pay gap %



What is the "gender pay gap"?

The gender pay gap is the difference in the average earnings between men and women, regardless of the work they do. Gender pay differs from "equal pay", which looks at pay differences between men and women carrying out the same or comparable work.

Mean versus median

The gender pay gap is reported on both a mean (average) and median (mid-point) basis. The two measures are complementary and illustrate different aspects of the distribution of pay across an organisation. The mean gender pay gap is the difference in the average hourly pay for women compared to men. If you were to separately line up women and men from lowest to highest pay rate, the median pay gap would be the difference between the hourly pay rate for the middle woman compared to the hourly rate for the middle man.

The safety and wellbeing of our employees and customers is our first priority. There is nothing more important. We are determined to lead our industry in health, safety and wellbeing best practice.

Providing support

As a Disability Confident Employer we actively focus on attracting people with disabilities to our organization and promoting our opportunities at disability job fairs. We support employees who become disabled during employment including offering flexibility and making reasonable adjustments to the workplace to ensure they can reach their full potential. Our Disability Champions help provide support, advice and encouragement to those who have disabilities, helping them on their career journeys.

Our award-winning "Give Someone a Start" programme offers work experience to people who are out of work, and those with mental and physical disabilities who may need extra support in finding a role. We are expanding the programme, running our first successful work experience placement with Lanes, one of our alliance partners in November with more to follow and are working on a placement with another partner, Morrisons, for next year.

We also hold a Bronze award by the Armed Forces Covenant Employer Recognition Scheme for our support of the Armed Forces community.

Our approach to human rights, modern slavery and ethics

Our code of conduct covers our approach to business activities and how we work, providing a clear, ethical and legal framework for our employees, customers and stakeholders. All elements of our code of conduct apply to both our permanent and temporary employees and our contractors and alliance partners have committed to follow the provisions of this code. Underpinning the code of conduct and in line with human rights principles, we have a range of policies covering health and safety, equality, diversity and inclusion, anti-corruption and bribery, human rights and modern slavery and honest and ethical behaviour. These policies are available on our website https://corporate.thameswater.co.uk/About-us/corporate-responsibility-and-sustainability/our-policies. We also have a 24 hour Employee Assistance Helpline available and a robust whistleblowing mechanism in place.

Ensuring a safe working environment

The safety and wellbeing of our employees and customers is our first priority. There is nothing more important. We are determined to lead our industry in health, safety and wellbeing best practice.

We're committed to achieving our vision of "zero incidents, zero harm, zero compromise, every day we are at work" and every employee, without exception, has the authority to stop any activity that can't be done safely.

Our health and safety team, reporting to the Health, Safety and Environment Committee, is passionate about embedding a culture of openness which encourages employees to help make their workplace a safer environment – through reporting safety observations we're able to put things right before they can cause incidents. In our most recent employee survey 89% of employees agreed that for the fifth consecutive year (since 2014) the question "Health and Safety is taken seriously at Thames Water" has again topped the leader board of questions – while this is a very encouraging result, we continue to work to improve on this score every year.

In 2018/19, we recorded the longest period in our history, over 40 days, without a single injury that led to someone not being able to return to work the next day. During this period 15,000 of our colleagues and supply chain partners worked for a combined total of 3.7 million work hours. Like all major safety critical organisations we measure lost time injury performance using frequency rates; in 2018/19 we maintained the number of incidents per 100,000 hours worked at 0.16. Overall however we saw a decrease in the number of lost time injury incidents during the period, the nil change in the frequency rate was due to changes in actual hours worked.

Under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), we're required to report to the Health & Safety Executive all specified injuries, lost time injuries involving more than seven days lost time, work-related diseases and certain types of incidents not involving injury known as dangerous occurrences. In 2018/19 we saw an increase in reported notifiable injuries raising the frequency rate to 0.08 from 0.06 in 2017/18. We are committed to maximising our learning from all incidents and are already implementing the necessary measures to preventative measures to ensure we continue to achieve our vision of sending everyone home safe and well every day.

We ensure that our partner agencies share our "zero compromise" view on health and safety. Sharing the same high standards, we were granted the Health and Safety award at the 2018 Utility Week Awards alongside our partner organization, Lanes.

Future plans will see us continue our drive towards achieving excellence in health and safety, using the power of technology in developing our immersive and virtual reality platforms for a full range of health and safety courses.

We continue to place great importance on proactive risk prevention, while creating a culture of care through which all our people can improve their own health and wellbeing by making informed choices.

Creating a culture of care

We continue to place great importance on proactive risk prevention, while creating a culture of care through which all our people can improve their own health and wellbeing by making informed choices. We maintained the number of work-related illness cases resulting in absence from work, with 16 cases during 2018/19.

Our mental health strategy, "Time to Talk", covers initiatives including mental health awareness training, open engagement forums and MIND's Time to Change pledge.

In the year we have trained 268 mental health first aiders and 468 employees have taken part in the Mind Fit mental health awareness programme. We aim to have one in ten people, in every team across the company, trained in mental health by March 2020.

Showing our commitment to our customer-driven value of being positive and visible, our industry-leading activities in this area have been widely featured in the media. We were also featured in the independent review "Thriving at Work" white paper commissioned by the Government and the Shaw Trust mental health report.

As part of our continued commitment, we're launching a new confidential wellbeing self-assessment tool which will help employees quickly and easily identify any pressure points in their lives, and if needed, be directed to support and guidance see page 59.

Everyone at Thames Water is entitled to a free annual Personal Medical Assessment, with 2,825 employees signing up last year. We also offer a free 12 week slimming world programme for employees who meet certain criteria, free flu jabs, a "cycle to work" scheme as well as gym membership and wellbeing discounts. We have a 24 hour help line to assist in resolving personal or work-related problems which may affect their health, well-being or work performance.

Our wellbeing plans for this year include a focus on fatigue management and sleep education for our workforce who work night shifts. We are also launching an in-house occupational health training course for managers and a clinical advice line for support and guidance. We are continuing enabling our people to easily access opportunities for improving their personal physical activity.

As part of our Welfare Upgrade Programme, we are surveying and upgrading 200 sites across our estate over a two year period with modern kitchen, toilet and shower facilities. To date the team have successfully completed 56 sites.

Setting new standards

Water is our business. We recently became the first water company in the UK to gain a prestigious accreditation for our water safety training.

Attended by over

700 employees

and contractors to date, the courses have been accredited by Outreach Rescue, the group behind the training of hazard response teams across the UK.

Only 11 organisations have been accredited to deliver the specialist rescue courses and we're setting new standards in our industry with our contractors completing the course, gaining not only valuable training but a key life skill. The course has been attended by members of our senior leadership team, including our Head of Health, Safety, Security and Wellbeing.

Our ability to provide first-class customer service depends on the passion and performance of our people.

Learning and development

During 2018/19, we held over 22,000 people training days and set up a new central Learning and Development Centre of Excellence with the aim of ensuring that all employees receive the key knowledge, skills and competencies required to perform their role and deliver on key business needs. In that time, our new Knowledge Management "My Guide" has seen 1.4 million separate hits; we have commenced building a "Licence to Operate" process for all critical water/ waste/Network/ H&S personnel; supported the launch of business critical projects such as our new customer relationship management and billing platform and vulnerability; and developed a more effective process for managing mandatory training (GDPR etc).

The role of manager has never been more critical and we will soon have two new programmes in place to support new managers and those in middle management positions. In the coming months, we will be introducing a new Learning Management System that will allow us to increase the volume of training to employees, comply better with key legislation (DWI/EA/HSE) and increase the cost effectiveness of our provision.

Developing and rewarding employees

We want our talented people to be proud, engaged and passionate about our business – after all, they're at the heart of serving our customers well. We offer fair and flexible reward packages which support our strategic priorities and motivate our teams. Our "Share in Your Success 2020" is a non-contributory incentive scheme open to all employees in non-managerial grades, offering a potential payment of up to 5% of salary in 2020. Targets for this scheme are based on what is important to our customers, such as providing excellent service, reducing leakage and pollutions and continuing our large investment programme and are fully aligned with our senior management incentive plans, ensuring we are all pulling in the same direction.

We take great pride in celebrating individual and team successes and shining a spotlight on colleagues from across the business that have gone the extra mile for customers. In 2018 there were 843 nominations for our "Spotlight" employee awards.

Safe-guarding future skills in our industry

We run traineeships, apprenticeships and graduate programmes to develop technical and leadership skills and nurture the talent we'll need for the future. Our successful apprenticeship programme serves to future-proof the supply of skilled people we will need in our more technical roles. In 2018/19 29 apprentices joined our company; they are hired on a permanent contract from the start and complete an extensive programme of on and off the job learning during their two or four year apprenticeship. Our graduate scheme focuses on creating future leaders. Last year we recruited 18 graduates onto this programme and they will be given opportunities to develop their leadership skills and study toward professional technical qualifications.

Modernising our working practices

We aim, wherever possible, to provide the flexibility to allow employees to work in a way which suits them best and set the importance of achieving a healthy work/life balance from the top.

Many of our employees work either part-time or with condensed hours to fit around the other demands on their time, including members of our Executive Team and Executive Leadership Group. With 15% of our employees over 55, we are developing a programme to support the transition of retiring employees enabling the early recruitment of replacements and knowledge transfer.

In 2018/19

81%

of women returned to their roles after maternity leave, with

38%

adopting a flexible working pattern

We aim to comply with the new Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Reporting Requirement	Policies and standards which govern our approach	Risk management and additional information
Environment	The health of the environment has an impact on our ability to deliver our essential services and we're committed to being as sustainable as we can to secure the provision of our services over the long-term. We have many policies in place to help us address our impact on the environment. • Biodiversity policy • Biosecurity policy • Climate change policy • Corporate responsibility policy • Energy policy • Environment policy • Health and safety policy statement • Sustainability policy	Our Executive Chairman and the Executive team have responsibility for the creation and delivery of our sustainability and climate change policies and plans, with oversight from our Board. Our Sustainability Director is a member of the Executive team and responsible for the day-to-day work on sustainability and related matters. All these policies are available via our website. Further information is available via the following sections of this annual report as follows: Market drivers, **page 28** Protecting and enhancing the environment strategic priority, progress, **page 56** Performance commitments, **pages 62–73** Environment, **page 80** Environmental risks, **page 43** Stakeholders, **pages 75–77**
Employees	We have a comprehensive suite of policies and all polices are freely available on our Company intranet. Policies include: • Code of Conduct • Corporate responsibility policy • Volunteering and fundraising policy • Employee relations policy principles • Equal opportunities, diversity and inclusion policy • Health and safety policy statement • Whistleblowing policy We have a confidential 24-hour Employee Assistance Helpline available and a robust whistleblowing process in place for any of our people to ask questions or raise concerns. Engagement increased to 71 % in the annual employee survey.	Our people are the customer face of Thames Water and are a vital part of the life-essential service we provide to 15 million customers. We use a broad range of channels to engage including regular contact with line managers and senior leaders through catch ups, team meetings and conferences. Further information is available via the following sections of this annual report as follows: Market drivers, **page 28** People strategic priority, progress and performance commitments, **page 58** Performance commitments, **pages 62–73** People, **page 92** including gender pay gap information People risks, **page 41** Stakeholders, **page 77** Diversity of the Board, **page 115** Ratio of CEO remuneration compared to employees, **page 138**

Respect for human rights

We have a comprehensive suite of policies and all polices are freely available on our Company intranet. Policies include:

- Code of conduct
- Equal opportunities, diversity and inclusion policy
- Health and safety policy statement
- Honesty and ethical behaviour policy (incorporating anti-bribery and corruption)
- Modern slavery act statement
- Whistleblowing policy
- Work experience guidelines

Our code of conduct covers our approach to business activities and how we work, providing a clear, ethical and legal framework for our employees, customers and stakeholders.

We acknowledge the United Nation's Guiding Principles on Business and Human Rights, so we have policies and procedures in place which ensure we're compliant with these requirements, and that they're enforced throughout our business.

Further information is available via the following sections of this annual report as follows:

People strategic priority, progress and performance commitments, **page 58**

Performance commitments, **pages 62–73**

People, **pages 88–93** including gender pay gap information

Stakeholders, **pages 75–77**

Managing our risks and opportunities, **pages 34–37**

Effectiveness, **page 110**

Our Modern Slavery Act statement and Honesty and Ethical Behaviour Policy (incorporating anti-bribery and corruption) are available from our website.

Social matters

We have a comprehensive suite of policies and all polices are freely available on our Company intranet. Policies include:

- Code of conduct
- Data privacy policy
- Guidelines for charities and community organisations for support from Thames Water
- Heritage policy
- Social media policy
- Supply chain sustainability policy
- Volunteering and fundraising policy

Further information is available via the following sections of this annual report as follows:

Becoming more sustainable: Community, **page 86**

Market drivers, **page 28**

Managing our risks and opportunities, **pages 34–37**

Stakeholders, **page 76**

Anti-corruption and anti-bribery matters

We have a comprehensive suite of policies and all polices are freely available on our Company intranet. Policies include:

- Code of conduct
- Competition compliance policy
- Data protection policy
- Honesty and ethical behaviour policy (incorporating anti-bribery and corruption)
- Information security policy

The Audit, Risk and Reporting Committee receives quarterly reports on whistle blowing, fraud and anti-bribery.

The Risk, Audit and Assurance team bring to the attention of the Committee the key cases that have been investigated by a specialist team and where applicable, look at lessons learned from those investigations.

We seek to promote a culture of honesty and integrity in all our dealings, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data from the business.

Further information is available via the following sections of this annual report as follows:

Becoming more sustainable: People, **page 88**

Managing our risks and opportunities, **pages 34–37**

Policy embedding due diligence and outcomes

Governance framework and structure, **page 108**

Board activity during the year, **page 99**

Audit, Risk and Reporting Committee report, **page 116**

Principal risks and impact on business activity

Principal risks and effective risk management, **pages 34–37**

Audit, Risk and Reporting Committee report, **page 116**

Risk management and regulatory disclosure, **page 294**

Description of business model

Our business model, **page 32**

Strategy in action, **pages 50–59**

Non-financial key performance indicators

Strategy overview, **page 30**

Snapshot of performance, **IFC**

Priorities and progress sections, **pages 50–59**

Performance commitments **pages 62–73**

Governance

In this section


Thames Water
Thames Water

Chairman's introduction

Enhancing performance through good governance

Governance review

When I joined as Chairman, I was clear we need to thoroughly review our approach to governance to ensure it was fit for purpose for the UK's biggest essential services company. The existence of our Cayman Islands subsidiaries led to questions about the way we were running our finances, and the missing of our leakage target for the first time in ten years called into question our approach to operating the business. Over 15 million people, as well as the heart of the economy and the country's tourism industry, rely on us to operate this business in a responsible and sustainable way, and we're committed to creating value for all our stakeholders.

Shortly before I joined, we saw a major change in our ownership, with 51% of the shareholdings changing over two years. Thames Water has been through a challenging period and our external shareholders have been fully supportive of our approach to increase investment and forgo dividends until the start of the next regulatory period, to deliver improvements for customers.

Over the past year, we've made some important changes as we conclude the review.

- Increased the number of Independent Non-Executive Directors on the Board. This reflects our commitment to ensure they are the majority group on the Board and aligns with Ofwat's principles
- Appointed Nick Land as Deputy Chairman of Thames Water to maintain "best in class" governance, while I act as Interim Executive Chairman
- Appointed new Independent Chairs for four of our six Board committees – our Remuneration Committee, Health, Safety and Environment Committee, Regulatory Strategy Committee and Customer Service Committee. Nick Land was appointed as Chair of our Audit, Risk and Reporting Committee ("ARRC") in February 2017 and I took the position as Interim Chair of our Nomination Committee in December 2017
- Aligned the skill set of the Board with the delivery of our strategy and long-term commitments and we've taken steps to increase the diversity of the Board. We are publishing a Board skills matrix for the first time this year – see page 106
- Closed our Cayman Islands subsidiaries, replacing them with a UK Plc. Although fully registered in the UK for tax, their existence confused perceptions and didn't align with our spirit of transparency
- Consolidated our financial accounts to include Thames Water Utilities Limited and our sole subsidiary Thames Water Utilities Finance Plc to present the combined results as if they were a single entity
- Increased our focus on reporting, and recognised by Ofwat under its Company Monitoring Framework assessment with an upgrade to "targeted" status

Board activity

This year the Board has focused on the preparation of our business plan for 2020 to 2025, as well as taking a long-term view on managing risk, and ensuring the sustainability of the business and our services. Fulfilling our social contract is another important consideration for the Board, and we've outlined the Company's progress during the year in our strategic report. For more information about our approach to sustainability, we will be publishing our Corporate Responsibility and Sustainability Report in Summer 2019 on our website.

Our Regulatory Strategy Committee has been dedicated to overseeing the Price Review process, to ensure our business plan for 2020 to 2025 reflects customer needs and affordability, while addressing the investment needs of our operational assets to ensure the future resilience of our services. The Committee approved the original submission and April's enhanced plan. We look forward to engaging with Ofwat as we confirm our plan.

We're facing heightened risks to the delivery of our services with Brexit, climate change and population growth being particular areas of focus during the year. The ARRC has been taking an increasingly robust approach to analysing key risks, to ensure we're taking the right mitigating actions to protect our services to customers and the natural environment.

Delivering more for customers is at the heart of our strategy and, as a Board, our face-to-face engagement with customers during the year has brought customer needs to life. Complaint reduction is an important focus for the coming year, and the Customer Service Committee is working with senior management to focus our priorities and drive a step change in performance. It's also monitoring the phased transition of customers to our new customer relationship management and billing platform, which will revolutionise our customer segmentation and ability to serve customers.

As a Board, we've also been engaging with stakeholders during the year, including our Customer Challenge Group (CCG), and through the Annual Stakeholder Review in November 2018, to ensure we're connected to what matters most to groups such as NGOs, charities, banks, investors, local government and regulators. A full picture of our engagement programme can be seen on pages 75–77 of our strategic report.

The safety of our people is of paramount importance. The Health, Safety & Environment Committee, introduced in the prior year, has been monitoring progress against our strategy to ensure everyone goes home safe every day, and promote the wellbeing of our employees, so they're in the best position to look after our customers and our operations. With safety being of paramount importance, the Committee focused on developing a better understanding of potential pressure points in risk areas such as trunk mains and toxic gas.

Culture

As a Board, we are responsible for fostering the right culture, and working with the Executive team to reinforce the right behaviours to make Thames Water a great place to work. Openness, transparency, honesty and collaboration are all crucial, and are being embedded into the way we run the business now, and in the future, to create a happy workforce, inspired to deliver exceptional customer service.

Our people are our greatest asset and sit at the heart of our culture. As a Board, we are responsible for building our culture through leadership, performance management, reward and recognition, our approach to training, engagement and communication. We're in the process of redefining our values, to ensure they reflect the characteristics we need to have to deliver our purpose.

Board changes

After reaching the end of their tenure during the year, I would like to thank Lorraine Baldry, Dame Deirdre Hutton and Ed Richards for their commitment to Thames Water. I would also like to thank Steve Robertson and Nick Fincham for their service on the Board as Executive Directors.

We've welcomed a new Non-Executive Director in recent months. John Morea replaced Guy Lambert. Also Michael McNicholas will shortly replace Kenton Bradbury to represent OMERs and Paul Donovan will replace Christopher Deacon. We look forward to welcoming them to the Board of Thames Water Utilities Limited.

Ian Marchant
Interim Executive Chairman
27 June 2019

How governance supports strategy

Our governance approach, which has been adopted by the Board, is underpinned by the UK Corporate Governance Code. Our governance principles can be found on our website. The framework is designed to provide a platform to deliver our strategy, while safeguarding and enhancing long-term shareholder value. The Board supports the business planning process and, in 2018/19, it was heavily engaged in the creation of the 2020 to 2025 business plan. It also participated in deep dives into key areas as well as periodic reviews and gave submission approval, with the Regulatory Strategy Committee and other Board Committees providing additional focus.

The Board also supports strategic financial planning and corporate finance. During 2018/19, it approved the launch of the STID (Security Trust and Intercreditor Deed) consent process to remove and close the Cayman Islands subsidiaries. It also reviewed and approved our annual debt prospectus and approved the response to Ofwat's consultation – "Putting the Sector Back in Balance." The Board also approved this year's financial statements and budgets for 2019/20.

Strategic priority/area	The Board's governance role	Board activity in 2018/19
Brilliant customer engagement Read more **page 50**	• To review the development and execution of the customer service, communications and media strategies to ensure customers remain at the heart of business decisions • Our approach to customer engagement receives additional focus through the Customer Service Committee	• Approved the Drinking Water Inspectorate Drinking Water Strategy submission • Hosted Annual Stakeholder Review attended by over 100 stakeholders • Immersion sessions with affected customers to better understand their needs • Met with the Chair of our Customer Challenge Group to discuss key issues • CC Water attended November Board meeting • Approved PR19 engagement strategy to ensure plan was based on customer needs and preferences • Endorsed approach for the transition of customers to our major new customer relationship management and billing platform • Agreed "Freeze thaw" report commitments and new incident management initiatives following the extreme weather in March 2018 • Oversaw simplification of the social tariff and new partnership approach to increasing the priority services register
Data to insight to action Read more on **page 52**	• To review the development and execution of our strategic approach to data to ensure it reflects the growing expectations of our customers and complies with regulations • Our approach to data risks receives additional focus from the Audit, Risk and Reporting Committee	• Considered and endorsed our digital strategy to create a more intelligent network to drive cost and operational efficiencies • Board deep dive on digital strategy • Agreed £60 million expenditure to improve IT resilience • Maintained focus on ongoing General Data Protection Regulations ("GDPR") approach
Invest in resilient systems and assets Read more on **page 54**	• To review key proposals to increase resilience of systems and assets, with a focus on improving performance in key areas such as leakage, supply interruptions and pollutions reduction • To approve expenditure and plans for capital projects to increase resilience	• Reviewed and approved large scale capital projects, including the upgrade of Deephams sewage treatment works and the future relocation of Guildford sewage treatment works • Endorsed the creation of a Leakage Task Force to increase focus on and coordinate leakage reduction activities • Approved the draft Water Resources Management Plan (WRMP) • Supported the development of Brexit planning • Approved Security and Emergency Measures Direction (SEMD) funding release • Deep dive on framework for capital delivery
Environmental protection and enhancement Read more on **page 56**	• To review our sustainability policy, as well as associated policies, and monitor progress • To ensure we have the right governance framework in place to monitor the impact of our operations on the environment • The Health, Safety and Environment Committee considers our impact on the environment, as well as the safety of our operations on our sites and in the community	• Discussed and agreed our long-term approach to mitigating and adapting to climate change including the reduction of greenhouse gas emissions and our move to net zero carbon emissions by 2030 • Agreed approach to reduction of pollutions • Supported the future integration of our Smarter Water Catchment approach as "business as usual" • Supported the introduction of natural capital accounting • Supported approach to convert incinerator ash into breeze blocks as part of contribution to the circular economy • Endorsed the Corporate Responsibility and Sustainability report, documenting our approach to sustainability • Approved Supply Chain Sustainability Policy
A collaborative and capable team Read more on **page 58**	• To provide oversight and review the implementation of the People Strategy including the employee survey, personal development reviews and corporate values • To champion diversity and our approach to health, safety and wellbeing • Our People Strategy received additional focus through the Remuneration Committee and the Nomination Committee	• Considered the results of the employee engagement survey and discussed employee engagement and culture • Visited the Customer Services Centre and met with Customer Service Advisors • Discussed talent and succession planning • Our Executive Chairman, Ian Marchant spoke at the disability conference about workplace inclusion • Agreed health and safety priorities • Endorsed corporate approach to mental health. • Agreed development of the "One Thames" approach • Reviewed remuneration • Led the Governance Review

Board of Directors

The right skills and experience to deliver our strategy

Our Chairman

Ian Marchant (58)

Interim Executive Chairman – Thames Water Utilities Limited

Appointed to the Board:
December 2017

Appointed as Chairman:
January 2018

N S R

Relevant skills

- Highly experienced Chairman, CEO and Non-Executive Director with a focus on the utilities sector
- Expertise in governance, finance, regulation, renewable energy and climate change mitigation

Relevant experience

During his ten years as CEO of SSE plc, as part of a 21-year tenure at the energy company, Ian led transformational change, performance improvements and the development of renewables. He is currently Independent Chairman of energy services firm, John Wood Group plc, Chair of Nova Innovation Ltd and a Non-Executive Director of Aggreko plc.

Through his company Dunelm Energy Limited, Ian advises and invests in start-up businesses. He is the former Chairman and founder of the Scotland 2020 Climate Group and served as the President of the Energy Institute and Chairman of the renewable energy firm, Infinis. Ian is the founder of Scotland's "Lights up Malawi" campaign for Climate Justice and was recently appointed Honorary President of the Royal Zoological Society of Scotland.

Our Independent Non-Executive Directors

Alistair Buchanan CBE (57)

Independent Non-Executive Director

Appointed to the Board:
July 2018

S A

Relevant skills

- Highly experienced chartered accountant with significant expertise in the regulation of utilities and public policy
- Board level experience within the water sector and energy sector Board experience at Electricity North West

Relevant experience

Alistair has a strong track record in developing regulation and public policy after being CEO of Ofgem for ten years until 2013. He was a Non-Executive Director of Scottish Water and was Chairman of KPMG's UK Power and Utilities Practice for five years until 2018. Before Ofgem, he spent the majority of his career in financial services with investment banks, where he was the top ranked analyst in his sector. He was awarded a CBE in 2008 for his services to energy policy making.

Nick Land (71)

Deputy Chairman/ Senior Independent Non-Executive Director

Appointed to the Board:
February 2017

A R N C H

Relevant skills

- Significant experience on the Boards of leading, global companies
- A highly experienced Chartered Accountant, with global financial and governance experience spanning more than three decades

Relevant experience

Nick brings a wealth of multi-sector finance and governance experience following ten years as Chairman of Ernst & Young as part of his 36 year career at one of the world's largest accounting firms. He was also a member of the Global Executive Board. He is currently a Non-Executive Director of the Financial Reporting Council and Chairs the Private Equity Reporting Group of the British Venture Capital Association. He is also Chairman of the Board of trustees of the Vodafone Group Foundation.

This follows a long history of Non-Executive Director roles at global companies such as Vodafone Group, Alliance Boots GmbH and Royal Dutch Shell.

Catherine Lynn (55)

Independent Non-Executive Director

Appointed to the Board:
November 2018

C H

Relevant skills

- Expertise in strategic business management within a regulated, highly dynamic environment
- Proven success embedding customer needs at the heart of business decision-making in a large scale, complex organisation serving millions of customers

Relevant experience

Catherine brings a wealth of commercial, operational, strategic and senior management experience having played a leadership role in Europe's low-cost aviation sector for 20 years, with a focus on delivering outstanding customer service. She is the former Group Commercial Director of easyJet, where she was directly responsible for a number of major initiatives underpinning easyJet's successful exponential growth. She was also part of the start-up team for British Airways' budget carrier Go Fly, as founding Head of Customer Services, and has ten years' experience as a Non-Executive Director.

Key to Committees

- (A) = Audit, Risk and Reporting Committee
- (S) = Regulatory Strategy Committee
- (R) = Remuneration Committee
- (N) = Nominations Committee
- (C) = Customer Service Committee
- (H) = Health, Safety and Environment Committee
- ● = Committee Chair

Strategic report
Governance
Financial statements
Annual performance report

Ian Pearson (60)

Independent Non-Executive Director

Appointed to the Board:
September 2014

A S R N

Relevant skills

- Experienced Company Chairman, Non-Executive Director and adviser, with expertise in strategic orientation and value creation
- Wealth of experience in the development of public policy relating to climate change and the environment.

Relevant experience

Ian brings extensive business and public sector insight to the Board. During a distinguished Ministerial career from 2001-2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury. He spent five years as the Chairman of AIM listed OVCT2, a company which invested in a variety of renewable energy companies. He is also Chairman of Code Investing Ltd, a Senior Advisor to BAI Communications plc and has previously been a member of the UK Advisory Board of PwC.

Jill Shedden MBE (53)

Independent Non-Executive Director

Appointed to the Board:
October 2018

R C

Relevant skills

- 30 years directing people strategies within a regulated utility
- Expertise in leading successful transformation programmes and driving the diversity and inclusion agenda

Relevant experience

Jill is currently Group HR Director of Centrica Plc after holding senior HR positions across the Centrica group. She has championed diversity and inclusion throughout her career, and has focused on building a high performing environment and a great place to work. In her role at Centrica, she has led major culture change, cost reduction and reorganisation programmes, as well as achieving "Best Companies" and "Great Places to Work" awards. Jill was awarded an MBE for her work with the Women's Business Council, a group set up to advise ministers how to maximise women's contribution to the future economic growth of the country.

David Waboso CBE (63)

Independent Non-Executive Director

Appointed to the Board:
February 2019

H A

Relevant skills

- A highly experienced Chartered engineer and project manager, leading major infrastructure projects both in the UK and internationally
- Expertise in maximising the potential of digital technology and digitised assets to increase capability, connectivity and reliability

Relevant experience

David brings decades of experience leading capital investment and digital transformation projects. After an early career in highways and water supply, he worked on major infrastructure upgrades including the Docklands Light Railway and Jubilee Line Extension. He has held senior positions at London Underground, as well as being the UK representative for the European Rail Agency and a Non-Executive Director of the Rail Safety and Standards Board. He was awarded a CBE for services to transport in London and has been the President of the Association of Project Management since 2015. Until March 2019 he was Managing Director, Digital Railway at Network Rail.

Former Directors

Lorraine Baldry OBE (69)
Independent Non-Executive Director

A C

Dame Deirdre Hutton DBE (70)
Independent Non-Executive Director

C H

Ed Richards CBE (53)
Independent Non-Executive Director

S C

Guy Lambert (42)
Non-Executive Director

Steve Robertson (61)
Executive Director – Chief Executive Officer

Nick Fincham (48)
Executive Director – Director of Strategy and Regulation

Board of Directors continued

Our Non-Executive Directors

Kenton Bradbury (49)

Non-Executive Director

Appointed to the Board:
May 2017

Represents the interests of long-term investor, OMERS.

A S R N H

Relevant skills

- Chartered engineer with extensive Board-level experience at utilities, including water companies
- Substantial experience in working with infrastructure businesses

Relevant experience

Kenton is currently Managing Director, Asset Management at OMERS Investments, responsible for the active management of the Company's infrastructure investments. He has asset management experience at companies such as Caruna, Ellevio, NET4GAS, Scotia Gas Networks, and Tank & Rast. He currently sits on the Boards of London City Airport, Caruna in Finland and Net4Gas in the Czech Republic amongst others.

Kenton was previously a Non-Executive Director for Yorkshire Water and Affinity Water, as well as a Director at Infracapital, the infrastructure investment arm of M&G Investments, where he sat on the Board of many portfolio companies.

Christopher Deacon (71)

Non-Executive Director

Appointed to the Board:
December 2006

Represents the interests of investors, QIC, bcIMC, PGGM and Aquila.

A N R S

Relevant skills

- Expertise conducting major infrastructure commercial negotiations
- A wealth of experience in the creation of commercial and business strategies for project and utility businesses

Relevant experience

Christopher has significant expertise as an independent infrastructure and project finance consultant, after 20 years in banking and structured/infrastructure finance. He has worked with both public and private sector sponsors, including Eurotunnel and major European contractors, at Board level, focusing on commercial/financial strategy and negotiation of major infrastructure, transport and power projects around the world. He is an adviser to energy regulator, Ofgem and a Non-Executive Director to various companies in the private infrastructure market place.

Key to Committees

- A = Audit, Risk and Reporting Committee
- S = Regulatory Strategy Committee
- R = Remuneration Committee
- N = Nominations Committee
- C = Customer Service Committee
- H = Health, Safety and Environment Committee
- ● = Committee Chair

John Morea (55)

Non-Executive Director

Appointed to the Board:
January 2019

Represents the interests of investors, Infinity and CIC.

H

Relevant skills

- Expertise in driving efficiency and embedding innovation to deliver performance improvements, while maintaining priority focus on safety and customer service
- Strong track record in driving sustainability including promoting environmental protection and climate change mitigation

Relevant experience

With a 30 year career in the utility sector, including ten years as the first, and current, CEO of Scotia Gas Networks (SGN), John has successfully led the regulated utility through four price controls and secured its place as the UK energy industry's leader for customer service. He has led the Company's digital transformation to drive operational and cost efficiencies. He has a personal interest in people development, including the diversity and inclusion agenda and promoting STEM subjects to young people. He is a current Director of the Energy Networks Association and past Non-Executive Director of Associated British Ports.

Greg Pestrak (47)

Non-Executive Director

Appointed to the Board:
November 2017

Represents the interests of investor, Wren House.

S C

Relevant skills

- Board level experience advising regulated and non-regulated global companies
- Expertise in delivering value creation programmes and bringing a constructively challenging perspective to business and operating models

Relevant experience

Greg brings a strong track record in asset management and over 18 years' consulting expertise working with investors and corporates to drive performance improvements. This included time at KPMG where he was the Partner leading on infrastructure. He is currently an Executive Vice President at Wren House Infrastructure, with a focus on Asset Management across the global portfolio.

Read more about our diversity policy **pages 114–115**

Strategic report
Governance
Financial statements
Annual performance report

Our Executive team is responsible for the day-to-day running of our business. As at 27 June 2019, it consists of the CFO, and seven functional directors.

Our Executive Director

Brandon Rennet (46)

Chief Financial Officer

Appointed to the Board:
March 2017

Relevant skills

- Strong expertise in leading the execution of multi-billion-pound funding, primarily in the public debt capital markets and creating sustainable financing structures to support corporate sustainability aims
- Valuable utility experience combined with public policy exposure

Relevant experience

Brandon brings substantial financial leadership success to his role as Chief Financial Officer having spent three years of a ten-year tenure as Managing Director of Finance at regulated energy company, SSE Plc. While in post he led the execution of more than £7 billion of funding and initiated a finance transformation programme.

Our Executive team

Richard Aylard CVO

Sustainability Director

Appointed:
October 2002

Relevant skills

- 30 years spent driving sustainability and supporting companies to transform their approach to environmental protection and community engagement
- Significant experience and understanding of Government and NGOs and the creation of mutually beneficial partnerships

Relevant experience

Richard directs our corporate sustainability approach, helping the business to build on its social and green credentials. He has a long history in the sustainability sector having worked as an independent consultant and as European Environment Director and Head of CSR at international corporate communications consultancy, Burson-Marsteller. He is a retired British Royal Naval Officer and from 1991-1996 he was the Private Secretary to the Prince of Wales. Richard is Area President of the Institute of Water, an Honorary Fellow of the Chartered Institute of Water and Environmental Management and Chair of the Water and Sanitation for the Urban Poor charity.

John Beaumont

Digital, Strategy and Transformation Director

Appointed:
September 2017

Relevant skills

- Experience driving complex change in regulated companies
- Proven background using digital technology to create customer obsessed businesses

Relevant experience

John directs digital transformation and strategy with a focus on improving customer outcomes and reducing operating costs. He leads strategy development, IT, data analytics and the application of digital technologies across the business. Prior to Thames Water he spent 12 years directing customer focused and operation-led transformations as a Partner at Bain & Company where he worked expansively in the digital and technology space across a variety of infrastructure-heavy industries. His early career was spent at Deloitte and PA Consulting.

Janet Burr

Human Resources Director

Appointed:
June 2010

Relevant skills

- Successful track record of leading organisation change and accelerating business transformation through leadership and differentiated talent models
- Career long expertise promoting and developing talent in a STEM (science, technology, engineering and maths) led environment

Relevant experience

Janet has responsibility for the design and implementation of the people strategy to ensure that Thames Water has the right people and capability in the right roles, performing at their best. She is an experienced HR Director having previously held senior positions in the retail sector and the automotive industry for companies such as Carlsberg Tetley, Hyundai UK and Volvo Car Corporation. Janet is a Board Director of the London Design and Engineering UTC (University Technical College).

Nick Fincham

Strategy and Regulation Director

Appointed:
April 2011

Relevant skills

- Substantial expertise in competition and economic regulation gained from experience on both sides of the regulatory fence across power, gas, aviation, mail and water sectors
- Significant knowledge of business operations in complex regulatory environments

Relevant experience

Nick leads engagement with Ofwat and other external authorities. He is responsible for maintaining compliance with current regulation, whilst engaging on the future regulatory agenda. Prior to Thames Water, he was of Director of Economic Regulation and Competition Policy at the Civil Aviation Authority where he helped pioneer the use of "constructive engagement" in price control reviews and successfully promoted the deregulation of Manchester and Stansted airports. Nick has also held senior positions at a number of economic regulators including Ofgem, OFFER, Ofgas and Postcomm.

Lawrence Gosden

Asset Management Director

Appointed:
October 2011

Relevant skills

- Extensive expertise within the water industry over 30 years
- Substantial experience leading infrastructure-based operations

Relevant experience

Lawrence leads our asset management capability ensuring we have a deliverable asset management plan. He has had a number of senior leadership positions across Thames Water and was, most recently, the Chief Operating Officer. Prior to this he was Managing Director for Wastewater and has also held the positions of Asset Director and Capital Delivery Director where he led the delivery of the company's £1 billion annual capital programme.

Kelly Macfarlane

Customer Experience Director

Appointed:
January 2017

Relevant skills

- Demonstrable track record in customer experience transformation within complex, regulated businesses
- Strong leadership capability to deliver digitally-led, agile customer service operations focused on first-time issue resolution

Relevant experience

Kelly is responsible for all Thames Water customer interfaces and teams including residential metering, billing and service support, and Non-Household and Developer Service operations.

She previously held a number of senior operational roles at Openreach, the infrastructure division of BT Group and a variety of key regulatory, commercial and operational roles for companies including Deloitte Consulting, Tiscali and npower. Kelly is a Vice President of the Institute of Customer Service.

Steve Spencer

Chief Operating Officer

Appointed:
April 2017

Relevant skills

- Significant experience of the water industry over 25 years
- Proven track record of improving performance and delivering strong operational results

Relevant experience

Steve oversees the efficient running of water and wastewater operations. He is responsible for delivering high quality drinking water and reducing leakage, alongside safely processing wastewater, transforming it into renewable power and returning clean water to our rivers. His career has been dedicated to the water sector. Not only has he held senior leadership positions across Thames Water, he has also worked at Southern Water and MWH Australia.

Compliance statement

The UK Corporate Governance Code 2016 (the "Code") applies to accounting periods beginning on or after 17 June 2016. In addition to the Code, the Board ensures that the Company's governance framework and processes adhere to Ofwat's Principles of Board Leadership, Transparency and Governance (the "Ofwat Principles"). It also considers the Disclosure and Transparency Rules ("DTR") that set out the standard of disclosure for regulated companies, whether they are publicly or privately owned. The Company endeavours, where applicable, to comply with the DTR.

While we have fully reflected the Ofwat Principles and drawn extensively on the appropriate Principles of the Code, the Code is founded on the principle of "comply or explain", which recognises that departure from specific provisions may be justified, provided reasons for the departure are clearly explained.

Provision B.2.1 of the Code says that the majority of members of the Nomination Committee should be independent non-executive directors. During the year only two of the five members of the committee were independent non-executive directors. The chairman, who was independent on appointment to the Board and Nomination Committee, was also a member of the committee during the year.

In our Annual Report and Annual Performance Report for 2017/2018 we highlighted three areas where we were not in compliance with the provisions of the Code during the year ended and as at 31 March 2018. These areas were in respect of:

- the number of independent non-executive directors relative to the Board overall;
- the disclosure on our website of terms of reference for committees; and
- the number of independent non-executive directors on the Remuneration Committee relative to the committee overall.

The actions taken by the company as outlined in the prior year Annual Report and throughout this Report have addressed these matters accordingly the Board considers that the Company complied with principles of the Code during the financial year.

Board composition

The Board, chaired by Ian Marchant, with Deputy Chair, Nick Land, consists of 12 Directors: The Chairman, one Executive Director (currently only the Chief Financial Officer ("the CFO"), while we recruit a new Chief Executive Officer), four Non-Executive Directors and six Independent Non-Executive Directors (together the "Directors").

The composition of the Board over the past year has continued to evolve as part of the governance review. Four new Independent Non-Executive Directors and one Non-Executive Director have been appointed, with three Independent Non-Executive Directors, one Non-Executive Director and two Executive Directors stepping down. Alistair Buchanan, Jill Shedden, Catherine Lynn and David Waboso were appointed as Independent Non-Executive Directors in July, October and November 2018, and in February 2019, respectively.

As previously reported, Dame Deirdre Hutton, Ed Richards and Lorraine Baldry resigned as Independent Non-Executive Directors in January 2019 and March 2019 respectively. Guy Lambert stepped down as Non-Executive Director, replaced by John Morea in January 2019. Steve Robertson, our Chief Executive Officer, stepped down in May 2019 and Nick Fincham stepped down as Executive Director in March 2019.

The Board considers that each Director can devote sufficient time to fulfil their roles, including preparation for and attendance at the Board and Committee meetings, giving support and advice to the Executive Directors as well as providing new ideas, healthy challenge and an appropriate balance of skills and expertise. We continue to meet Ofwat's expectations and the Corporate Governance Code 2018, for Independent Non-Executive

Board skills matrix

This year we have introduced a Board skills matrix to highlight the breadth of skills represented on our Board.

	All Board Directors have regulated industry exposure and strategic leadership experience	Our Executive Chairman	Our Executive Director	Our Independent Non-Executive Directors						Our Non-Executive Directors			
		Ian Marchant	Brandon Rennet	Alistair Buchanan	Nick Land	Catherine Lynn	Ian Pearson	Jill Shedden	David Waboso	Kenton Bradbury	Christopher Deacon	John Morea	Greg Pestrak
Experience	Utility industry experience or experience of network operations	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
Finance/ corporate	Economic regulation/ public policy	✓		✓		✓	✓	✓	✓	✓	✓	✓	
	Finance	✓	✓	✓	✓				✓	✓	✓		✓
Customer	Customer service	✓			✓	✓		✓					✓
Technology	Technology/ digital systems				✓	✓			✓			✓	
Resilience	Capital projects	✓	✓	✓		✓			✓	✓	✓	✓	✓
	Engineering			✓					✓	✓		✓	✓
Environment	Environmental/ sustainability	✓	✓	✓			✓					✓	
Team	Culture change and transformation	✓	✓		✓	✓		✓	✓			✓	✓
	Remuneration	✓			✓	✓	✓	✓		✓			✓
	Health and safety	✓			✓	✓			✓	✓		✓	

Directors forming the largest single group on the Board. The Board has an appropriate combination of Directors such that no one individual or small group of individuals dominates the Board's decision making. The Board looks closely at the other appointments held by its Directors see pages 100–103 for Directors and their other interests.

The Board values the contribution that all of our Directors bring to the stewardship of the Company and believes their balance of skills, experience and knowledge of the Company provide strong leadership and governance.

Board Committees

Whilst the Board retains overall responsibility, it delegates certain roles and responsibilities to its Board Committees.

The Board has six committees: Audit, Risk and Reporting Committee, Regulatory Strategy Committee, Remuneration Committee, Nomination Committee, Customer Service Committee and Health, Safety & Environment Committee. During the year, the Strategy and Business Planning Committee was renamed to the Regulatory Strategy Committee, to better reflect its responsibilities.

Our Board Committee terms of reference allow each committee to focus on specific issues more deeply and report to the Board on matters discussed as well as, where appropriate, make recommendations to the Board on matters requiring its approval. The membership and constitution of each committee is a matter for the Board. In accordance with the Ofwat Principles each of the Board Committees is chaired by an Independent Non-Executive Director and comprises a majority of Independent Non-Executive Directors.

During 2018/19, the Board reviewed the work of their respective Committee activities and approved revised terms of reference for several of them. The terms of reference of the committees are published on the Company's website. The minutes from each committee meeting are made available to the Board. The current membership and reports of the Board Committees can be found on pages 114–143.

Matters reserved for the Board

Thames Water is governed by an effective Board, with Independent Non-Executive Directors, being the largest group on the board, responsible for the long-term success of the business in accordance with its values. The Board controls the business, however delegates day-to-day responsibility to the Executive team. There are, however, some matters which are required to be or, in the interests of the company should only be, decided by the Board of Directors. In accordance with the Corporate Governance Code, the following responsibilities of the Board are set out in writing and are available on the Company's website.

The Board is responsible for specific matters in the following areas:

- Strategy and management
- Structure and capital
- Financial reporting and controls
- Risk and internal controls
- Material contracts and investments
- Communication
- Board membership and other appointments
- Remuneration
- Delegation of authority
- Corporate governance matters
- Policies including employee relations, diversity, health and safety and environment policies
- Material regulatory decisions
- Other matters – such as the appointment of principal professional advisers

The Company maintains comprehensive insurance cover including Directors' and Officers' Liability Cover.

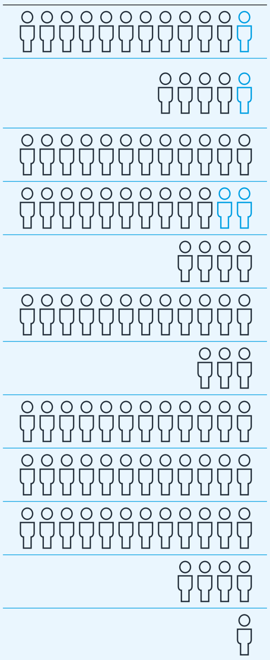
Board meetings

The Board held 12 formal meetings during the year. In addition, a workshop and informal sessions were held to facilitate in-depth discussions on matters such as current operational performance, Price Review 2019 (PR19), leakage and network performance, budget proposals, and finance and treasury. The Board holds separate meetings on a regular basis, without the Executive Directors being present, to discuss any issues or concerns. In addition, the Chairman meets only with the Independent Non-Executive Directors at least once a year. There are also informal opportunities for the Directors to meet and discuss specific areas of the business with individual members of the Executive team and other employees across the organisation.

Attendance

Membership of the Board during 2018/19
Kenton Bradbury
Alistair Buchanan (joined 09/07/2018)
Christopher Deacon
Nick Land
Catherine Lynn (joined 28/11/2018)
Ian Marchant*
John Morea (joined 28/01/2019)
Ian Pearson
Greg Pestrak
Brandon Rennet
Jill Shedden (joined 01/10/2018)
David Waboso (joined 01/02/2019)

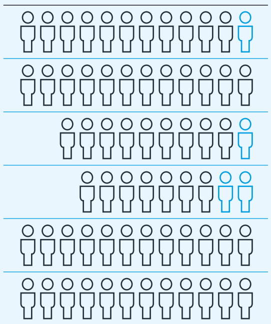
Meetings attended/not attended



Resigned directors

Membership of the Board during 2017/18
Lorraine Baldry
Nick Fincham
Dame Deirdre Hutton
Guy Lambert
Ed Richards
Steve Robertson

Scheduled meetings attended/ eligible scheduled meetings



* Chair

Meeting attended Meeting not attended

Board and resource allocation

Roles and responsibilities of the Directors

The Board has a clearly defined framework of roles, responsibilities and delegated authorities in place to support its primary responsibility of promoting the long-term success of the Company for the benefit of its customers, employees, shareholders and other stakeholders. During the year, the roles of the Chairman and CEO have been reviewed and approved by the Board, and details are available on the website.

Note: As of June 2019, we are recruiting a replacement CEO. In the interim, Ian Marchant is acting as Interim Executive Chairman and Nick Land, the Senior Independent Non-Executive Director, has been appointed as Deputy Chairman to ensure high standards of governance are maintained.

The Chairman

The Chairman is responsible for creating the conditions for the effective working of the Board. The Chairman is specifically responsible for the following:

The Board see pages 100–103

- Entrepreneurial leadership
- Principal decision making forum

Senior Independent Director

- Available to all shareholders to answer any queries that cannot be addressed by the Chairman or other Executive Directors
- Available to chair the Board and Committee meetings if the Chair is unable to attend and acts as an additional point of contact for shareholders
- Supports the Chairman in his role and leads the Non-Executive Directors in the oversight of the Chairman

Independent Non-Executive Directors see pages 100–101

- Independent in character and judgement, and persons of standing with relevant experience
- Collectively having connections with, and knowledge of the Company's industry
- Understand the interests of our customers and how these can be respected and protected see skills matrix page 106
- Valued members of the Board who bring overall independent advice, review and challenge on behalf of all stakeholders, including customers
- Each has been appointed for their individual expertise and experience following a rigorous recruitment process
- All are subject to annual re-election

Audit, Risk and Reporting Committee

page 116

Regulatory Strategy Committee

page 122

External Shareholders

Kemble Water Holdings Limited

Thames Water Utilities Limited

- Setting the agenda and conduct of Board meetings. In doing so he shall take full account of the issues and concerns of all Directors and encourage their active engagement in Board discussion
- Leading the Board in ensuring a coherent strategic plan or framework is agreed
- Promoting the highest standards of corporate governance, including compliance with the UK Corporate Governance Code 2016 as updated from time to time wherever possible
- Ensuring that the Board and its Committees comprise individuals with an appropriate mixture of skills, experience and knowledge to support the needs of the business
- Ensuring that the Company maintains effective communication with shareholders and other key stakeholders, and that their views and any concerns are understood by the Board
- Working with the Chief Executive to ensure that the Board receives accurate and timely information on the performance of the Company
- Leading the evaluation of the performance of the Board, its Committees and individual Directors as required and at least annually
- Establishing an effective working relationship with the Chief Executive, providing support and advice whilst respecting executive responsibility
- Ensuring that a well constructed induction programme is provided for new Directors, that all Directors have the opportunity to develop their understanding of the Company and that they are kept informed of matters affecting the Company
- Representing the Company at the highest level and in conjunction with the Chief Executive developing strategic relationships with key stakeholders and political leaders

- Approves strategic direction to promote, collectively, the long-term success of the Company
- Ensures the Company manages risk effectively
- Sets Company's values and standards

Non-Executive Directors
see pages 102–103
- Nominated and appointed by the shareholders of Kemble Water Holdings Limited and not classified as independent
- Provide strong experience and constructively challenge and monitor the performance and delivery of the strategy within the risk parameters set by the Board
- All subject to annual re-election

Company Secretary
- Acts as Secretary to the Board and all the Board's Committees
- Provides advice to the Directors and is responsible for advising the Board on all governance matters, ensuring the Board operates in accordance with relevant laws and governance principles
- Ensures good information flow to the Board and its Committees

Chief Executive

The Chief Executive is responsible for the leadership and operational management of the Company within the strategy and business plan agreed by the Board.

The Chief Executive is specifically responsible for the following in respect of the relationship with the Board:

- Developing the business strategy for the Company to be approved by the Board on an annual basis
- Implementing, with the Executive Team, the decisions of the Board and its Committees
- Producing a business plan and a budget for the Company to be approved by the Board on an annual basis, and ensuring the implementation of same
- Ensuring the highest standards of Health, Safety and Environment are set throughout the Company on behalf of the community and the Company's employees
- Ensuring that the Company's reputation for customer service is maintained at the highest level, and that a culture of customer service is embedded throughout the Company
- Overseeing the management of the executive resource and succession planning processes and presenting annually the output from these to the Board (including advice to the Remuneration Committee on the remuneration and appointment of senior managers and executives)
- Ensuring that effective business and financial controls and risk management processes are in place across the Company and that all relevant laws and regulations are complied with, making recommendations to the Board on the appropriate delegation of authority with the Group
- Keeping the Board informed regularly of the performance of the Company and bringing promptly to the Board's attention all matters that materially affect, or are capable of materially affecting, the performance of the Company and the achievement of its strategy
- Developing for the Board's approval appropriate values and standards to guide all activities undertaken by the Company
- Representing the Company at the highest level and, in conjunction with the Chairman, developing strategic relationships with key stakeholders, political leaders and customers

Remuneration Committee
page 126

Nomination Committee
page 114

Customer Service Committee
page 123

Health, Safety & Environment Committee
page 125

Executive Team

See the Executive Team composition on **pages 104–105**

Induction and development

Bespoke induction programmes are arranged for each new Director. The induction programme is tailored to their specific requirements and is designed to build upon and develop their knowledge of the industry and sector, as well as an understanding of the Company's operations and culture. The programme provides an overview of our customer service, financial and operational performance, along with an explanation of the regulatory regime and governance framework.

It includes meetings with the Chairman, CEO and CFO, as well as the Executive team, shareholders, the Company Secretary, other members of the senior management team and external advisers who provide support to the Board or Committees.

Inductions in action

Each Director is provided with an induction programme covering the following:

The business

- Briefings on Company history, business background, operational performance and plans, strategy, key performance indicators and targets
- Site visits during the first few months, to allow each Director to experience, first hand, the operations of the business
- Presentations from management on topics such as our strategy and business plan, finance and commercial, key operational areas and risk
- One-to-one meetings with members of the Executive team

Culture and values

- The Board recognises the importance of its role in setting the tone of Thames Water's culture and embedding it throughout the Group. We are structured as "One Thames", which encourages collaboration and the breaking down of silos between teams
- Each director is provided with: A briefing on our people and company culture; including health, safety and wellbeing, talent and succession, trade unions and an overview of our remuneration policy

Governance

- Training relevant to their duties as Independent Non-Executive Directors
- Meetings with the Chairman and Chairs of the Board's Committees
- Briefing on the regulatory and governance framework, Company policies and Board procedures
- An overview of our major risks and our internal risk management strategy.

Regulators and other stakeholders

- Participation in
  - Briefings with the Environment Agency, Defra and Water UK
  - A briefing about customer engagement to understand our customers' views including engagement with our Customer Challenge Group and other key stakeholders.
  - Ofwat Non-Executive Director conference

My first two years:
Nick Land – Deputy Chairman and Senior Independent Director

Becoming Senior Independent Director (SID) at such a critical turning point for the business has been a unique experience for me. Given the nature of the challenges, and the overhaul of our approach to running the business, I, and the rest of the Board, have had a much more hands-on approach than in previous roles in providing guidance and ensuring appropriate governance.

Since joining in February 2017, I've been heavily involved in the reshaping of the Board, including leading the process to search for a new Chairman of Thames Water Utilities Limited, which resulted in the appointment of Ian Marchant. Since then, I've been working with Ian to ensure we have the right skill set to govern the business in a way that reflects the needs of our customers, communities and the natural environment. To support Ian in promoting the highest standards of Corporate Governance, and allow him to focus on his role as Executive Chairman in the absence of our CEO, I'm delighted to have taken on the role as Deputy Chairman.

As Chair of the Audit, Risk and Reporting Committee ("ARRC"), developing our approach to risk management has been another key focus for me. We're operating in a particularly challenging environment, so it's crucial we're managing our risks in the right way. As such, I've been working closely with people across the business to develop a more systematic approach to analysing our key risks, such as climate change, the use of data and adapting to a volatile political environment. Given the instability and uncertainty around Brexit, making sure we're ready to protect our customers, whatever the outcome, has been of particular importance during the year. For more information on Brexit risk, see page 35.

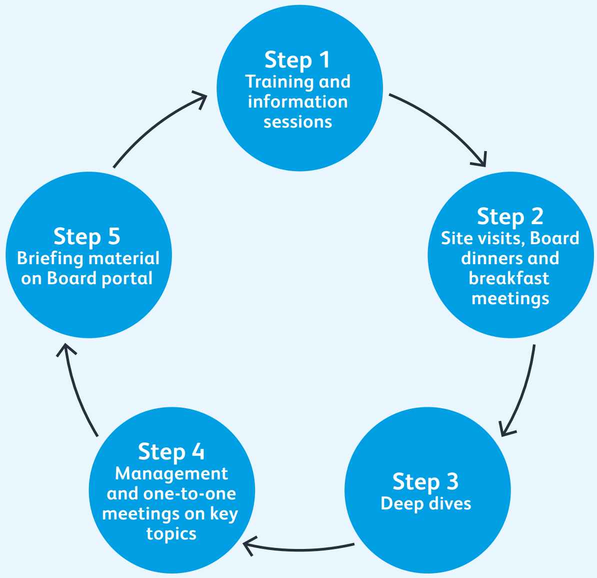
Clearly, the business has been through a challenging period and there's still a lot to do; however, we're turning a corner. It's an exciting time to be working for this iconic company.

Training and professional development

In addition to the informal sessions held during the year, with specific focus on topics of interest to the Board, continuous training is provided for Directors during the year by way of site visits, presentations, and regular updates and briefings. The informal sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive team level and gain further insight into our business and management capability.

The Directors have access to professional development provided by external bodies and our advisers. We aim to continually refresh and expand the Board's knowledge and skills to enable them to effectively fulfil their roles on the Board and its Committees, and contribute to discussions on technical and regulatory matters. We continue to enhance the Board's induction process to ensure we meet individual needs where appropriate.

Professional development at a glance



Effectiveness continued

Board evaluation

A Board evaluation was undertaken by the Company Secretary by questionnaire and individual interviews with the Directors. The results of the evaluation were prevented to the Board in June 2019. The key recommendations were:

- Greater focus on the Company's strategic and long-term objectives
- To combine the existing work around succession planning
- Greater visibility of the Board by the work force through an increased number of site visits and Board/Committee meetings being held at operational sites
- Review of the length and quality of the Board packs with reporting to be streamlined and aligned with the Company's purpose and priorities

Given the number of changes that were made to the composition of the Board and its Committees during the year, it has been agreed that a full externally facilitated evaluation process will be conducted in 2020 once the Board has had time to work together.

Led by the Senior Independent Director, the Non-Executive Directors conducted an appraisal of the Chairman's performance.

Information flow

The Company Secretary ensures the Board receives all relevant information in a timely manner, organises induction and training programmes for new Directors and facilitates the Board evaluation in years when this is conducted internally. He is also responsible for ensuring that the correct Board and Committee procedures are followed and advises the Board on corporate governance matters. He will also ensure that any concerns that are raised by the Directors are recorded clearly in the Board minutes and that Directors have access to independent professional advice, at the Company's expense.

Directors and their other interests

As a matter of good governance, all Directors are required to disclose their other significant commitments to the Board. They are also required to advise the Company Secretary of any actual or potential conflicts of interest as soon as they arise, so they can be considered by the Board at the next available opportunity. Any Director with a potential conflict of interest in relation to a specific matter under consideration by the Board or one of its Committees is required to recuse themselves from the relevant meeting while this item is discussed and may not vote on the matter. It is the Board's view that this procedure operated effectively during 2018/19. During the year, no Independent Non-Executive Director declared a material interest in any contract of significance with the Company or any of its subsidiary undertakings. Our Executive Director, Brandon Rennet, does not act for any FTSE company as a Non-Executive Director or Chairman.

Re-election

All the Directors are required to seek annual re-election at the Annual General Meeting of the Company.

Governance in action: Board site visits

Hosted an event with over

150

people to raise awareness of issues faced by people with a disability

Launched new customer relationship management and billing platform with over

235,000

customers migrated to date

Disability conference

We're committed to attracting a more diverse and inclusive workforce. To celebrate the "International Day of Persons with Disabilities" we hosted an event with over 150 people, to raise awareness of issues faced by people with a disability, and to empower them in the workplace. Speaking on the day, our Interim Executive Chairman, Ian Marchant, discussed his own experiences, highlighting the importance and value in creating an inclusive culture.

He said: "It's really encouraging to be here today and see so many people engaging with the issues of disabilities. Many of us are affected by disability, either directly or through family members and friends, and thinking about what it means in a work context is really important."

The event was attended by charities such as the Guide Dogs for the Blind, the Berkshire MS Therapy Centre, BLESMA, the military charity for limbless veterans, and the Red Cross.

The home of our new customer relationship management and billing platform

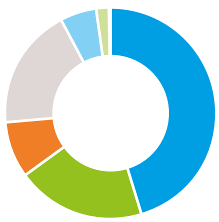
The Board visited our Customer Contact centre in Swindon, which will be the operational home of the new customer relationship management and billing system. The Board reviewed technical and business readiness for the migration of customers onto the new billing platform (see page 50). The Board was also given a demonstration of the new digital platform, which will facilitate digital service improvements for customers, and reviewed the changes to our recruitment, selection, training and ways of working to deliver a step change in the service our customers experience.

Dialogue with external shareholders

The presence of external shareholder appointed Non-Executive Directors on our Board allows effective face-to-face dialogue with our external shareholders and enables all members of the Board, particularly the Independent Non-Executive Directors, to develop an understanding of external shareholders' views. The Board composition includes four external shareholder appointed Non-Executive Directors. As at March 2019 they were Kenton Bradbury, representing OMERS (Kenton will be replaced on the Board by Michael McNicholas in July); Greg Pestrak, representing USS and Wren House; Guy Lambert, representing Infinity and CIC (Guy was replaced by John Morea in January 2019); and Christopher Deacon representing Aquila, bcIMC, QIC and PGGM.

The external shareholders have the opportunity for open and transparent dialogue with the Chairman, the Board, the Executive team and senior management on its stewardship of the Company and to understand any issues and concerns.

Shareholders by geography

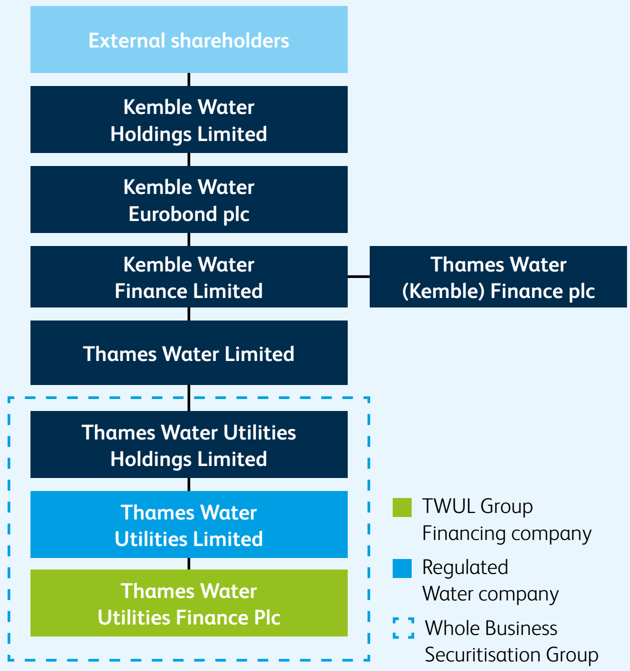


Canada	45.5 %
UK	19.6 %
China	8.7 %
Middle East	18.7 %
Australia	5.4 %
Europe	2.2 %

Shareholders by type

Dedicated pension fund	53.6 %
Partially pension backed	13.7 %
Other investors	5.4 %
Sovereign wealth funds	27.4 %

Our structure explained



This chart sets out an abridged version of the Kemble Water Holdings Limited Group Structure.

Our shareholders

OMERS	31.777 %	• Ontario Municipal Employees Retirement System (OMERS) is one of Canada's largest pension plans with C$85bn of net assets and considerable experience of managing essential infrastructure globally • Acquired stake through a series of 4 transactions between May 2017 and July 2018
USS	10.939 %	• The Universities Superannuation Scheme (USS) is a UK pension scheme for academic staff of UK universities • Acquired stake in July 2017
Infinity	9.900 %	• Infinity Investments S.A is a subsidiary of the Abu Dhabi Investment Authority (ADIA) is one of the world's largest sovereign wealth funds • Acquired stake in December 2011
Wren House	8.772 %	• The global direct infrastructure investment vehicle of the Kuwait Investment Authority ("KIA"), one of the world's largest sovereign wealth funds • Acquired stake in May 2017
bcIMC	8.706 %	• The British Columbia Investment Management Corporation (bcIMC) provides investment management services to British Columbia's public sector • Shareholder since 2006
Hermes	8.669 %	• Hermes GPE is one of Europe's leading independent specialists in global private markets. Manages the BT Pension Scheme (BTPS), one of the largest UK private- sector pension schemes. • Shareholder since 2012
CIC	8.688 %	• China Investment Corporation (CIC) is one of the world's largest sovereign wealth funds • Shareholder since 2012
QIC	5.352 %	• Queensland Investment Corporation (QIC) is a global diversified alternative investment firm, one of the largest institutional investment managers in Australia. • Shareholder since October 2006
Aquila	4.995 %	• 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. • Shareholder since May 2013
PGGM	2.172 %	• PGGM (Stiching Pensioenfonds Zorg en Welzijm) are a pension fund service provider and manage the pensions for different pension funds, the affiliated employers and their employees • Shareholder since October 2006

"This year the Committee anticipates spending considerable time in the search for a new CEO and ensuring that, with the recent changes of Director, collectively the "new" Board beds in and operates effectively."

Ian Marchant
Interim Chair of the Nomination Committee

At a glance

The composition of the Board of Thames Water Utilities Limited has continued to evolve since my report last year, resulting in a busy time for the Nomination Committee with several new Independent Non-Executive Directors joining the Board. This activity necessitated the Committee considering in depth the Company's succession planning and the appropriate mix of skills, experience and diversity for the Board now and in the future, having regard to the Company's strategy.

As noted elsewhere, during the year three Independent Non-Executive Directors, Dame Deirdre Hutton, Lorraine Baldry and Ed Richards stepped down from the Board. Their resignations took effect from 31 January and 28 March 2019. In turn the Board welcomed four new members, Alistair Buchanan, Jill Shedden, Catherine Lynn and David Waboso as Independent Non-Executive Directors with effect from 9 July, 1 October, 28 November 2018 and 1 February 2019, respectively.

Guy Lambert resigned as a Non-Executive Director with effect from 28 January 2019 and John Morea was appointed as a Non-Executive Director from the same date.

On 31 March 2019, Nick Fincham stepped down as an Executive Director from the Board as subsequently on 24 May 2019 did our Chief Executive Officer, Steve Robertson.

As a result of these changes at least half the Board, excluding the Chair, are Non-Executive Directors whom the Board considers to be independent.

The role of the Committee

The main duties of the Committee are to:

- Review from time to time the structure, size and composition of the Board of the Company and to make recommendations to the Board regarding any changes it considers necessary; and
- Keep under review the leadership needs of the Company and make recommendations regarding the formulation of succession plans for appointments to the Board to maintain an appropriate balance of skills and experience as well as diversity.

The Company Secretary acts as secretary to the Committee, thereby ensuring that all of the information required by the Committee to operate effectively is available. When appropriate the CEO, CFO, HR Director and external advisors may attend meetings by invitation.

Membership and attendance

The Nomination Committee met formally twice during the year as well as meeting informally at the request of the Chair to support the process to identify suitable candidates for the roles of Independent Non-Executive Director of the Company.

The Committee engaged the services of Spencer Stuart (an executive search firm unconnected to the Company) to evaluate, screen and identify suitable Independent Non-Executive Director candidates.

Membership of the Committee, excluding the Chair, consists of two Independent Non-Executive Directors, Nick Land and Ian Pearson, and two Non-Executive Directors, Christopher Deacon and Kenton Bradbury.

The year ahead

This year the Committee anticipates spending considerable time in the search for a new CEO and ensuring that, with the recent changes of Director, collectively the "new" Board beds in and operates effectively.

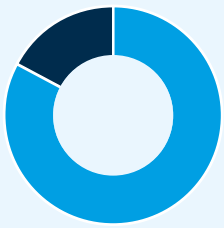
The Committee will continue to have regard to the development of high performers below Board level, recognising the necessity for appropriate opportunities across the Company. The Committee will also be focusing on reviewing the approach to diversity and inclusion and how it links to corporate strategy.

Ian Marchant
Chair of the Nomination Committee
27 June 2019

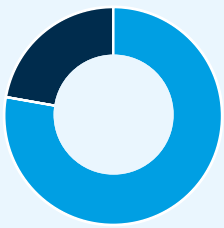
Diversity overview

Composition of the Board

Gender diversity
Board



Executive team



Board tenure (years)

Ian Marchant	1 year, 7 months
Brandon Rennet	2 years, 3 months
Nick Land	2 years, 4 months
Alistair Buchanan	11 months
Catherine Lynn	7 months
Christopher Deacon	12 years, 6 months
Ian Pearson	4 years, 10 months
Kenton Bradbury	2 years, 1 months
Jill Shedden	9 months
John Morea	5 months
Greg Pestrak	1 year, 7 months
David Waboso	5 months

Male Female

"The Committee's main responsibility is to exercise oversight over the accuracy and completeness of the Group's annual and interim financial statements, as well as its annual regulatory accounts, as required by Ofwat."

Nick Land
Chair of the Audit, Risk and Reporting Committee

At a glance

I am pleased to present our Audit, Risk and Reporting Committee (the "Committee" or "ARRC") report which sets out the role of the Committee and describes our activities and areas of focus during the year.

During the year the Committee's work focused on:

- Embedding the new General Data Protection Regulations that came into force in May 2018;
- Overseeing the PR19 assurance process;
- Approving the Section 19 Undertakings following Ofwat's investigation into our leakage performance;
- Engaging with and overseeing the transition to PricewaterhouseCoopers LLP ("PwC"), who were appointed as independent external auditor during the year, following a competitive tender process. The Company has previously stated that it will operate a ten-year audit tender process, in alignment with the EU regulatory framework for statutory audit;
- Formally considering and approving a response to a routine letter received from the Corporate Reporting Review Panel of the Financial Reporting Council ("FRC") in their role of monitoring the quality of corporate reporting. The main purpose of the letter was to seek clarification on certain statements and disclosures within our 2017/18 Annual Report and Annual Performance Report. Further detail can be found on page 118. The Company is committed to continually improving the quality of its reporting and where appropriate, has enhanced its disclosures within this year's combined report;
- Formally considering sufficiency of resources to deliver our obligations at each of our scheduled meetings (previously referred to as the "F6A statement"); and
- Overseeing improvements in our risk management framework – covering areas such as Brexit, data and cyber security, in addition to improved understanding of our mitigations against catastrophic loss risks.

Additionally, the Committee receives reports on whistleblowing, fraud and anti-bribery. The Risk, Audit and Assurance team brings to the attention of the Committee the key cases that have been investigated by a specialist team and where applicable, look at lessons learned from those investigations.

The role of the Committee

The Committee's main responsibility is to exercise oversight over the accuracy and completeness of the Group's annual and interim financial statements, as well as its annual regulatory accounts, as required by Ofwat. The Committee is also responsible for the regulated information in the Annual Report published for the benefit of customers. In addition, it is responsible for monitoring compliance (and challenging the effectiveness) of the risk management framework.

The responsibilities of the Committee are:

Review of the annual financial statements

- To exercise oversight over the accuracy and completeness of the combined Annual Report and Annual Performance Report (the "Report"), including advising the Board on whether the Report presents a fair, balanced and understandable view of the Group;
- To ensure the Report gives a true and fair view of the Group's results and performance and is compliant with IFRS financial reporting requirements, Ofwat's Regulatory Accounting Guidelines, the UK Corporate Governance Code, Disclosure and Transparency Rules ("DTR") and the Companies Act 20016 ("CA2006"); and
- To ensure that accounting policies, practices and disclosures are appropriate and assess whether the key estimates and judgments made by management are reasonable and appropriate.

External auditor

- To review the effectiveness of the external auditor;
- To make recommendations to the Board on the appointment of the auditor, to agree the fees paid to the auditor, and to be responsible for the tender of the statutory audit from time to time;
- To approve the provision of any non-audit services; and
- To review the scope and results of external audits and non-audit services.

Internal audit

- To promptly review reports of the Company from the internal auditor function; and
- To monitor and review the effectiveness of the Company's internal audit function in the context of the Group's overall risk management systems.

Risk management and internal controls

- To monitor and review the effectiveness of the Company's risk management framework;
- To monitor and review the effectiveness of the Company's internal controls framework and the results of controls testing;
- To review the Company's arrangements for whistleblowing, reporting fraud and other unethical or inappropriate behaviour; and
- To ensure that arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Assurance

- To provide independent review and validation of reporting of statutory data and regulatory data, in particular ensuring compliance with Ofwat's Company Monitoring Framework and ensuring assurance is in line with Ofwat's requirements; and
- To ensure the Company goes above and beyond the requirements of Ofwat's Company Monitoring Framework.

Membership and attendance

Nick Land, the Senior Independent Director, is the Chair of the Committee. Nick is a Chartered Accountant and the Board is satisfied that Nick possesses recent and relevant financial experience and that the ARRC has the competence relevant to the sector to effectively execute their duties.

Our external auditors, PwC, the Executive Directors, Head of Risk, Audit and Assurance, the Group Financial Controller and Company Secretary are invited to attend all meetings to ensure that all the information required by the Committee for it to operate effectively is available. Other members of the Thames Water senior management team attend by invitation as appropriate. In conjunction with each meeting, the external auditors and the Head of Risk, Audit and Assurance hold private sessions with the Committee without Thames Water management being present.

Attendance

	Meetings attended/not attended
Nick Land (I)	4/0
Lorraine Baldry (I) (resigned 28 March 2019)	4/0
Kenton Bradbury	4/0
Alistair Buchanan (joined 1 July 2018) (I)	3/0
Christopher Deacon	3/1
Ian Pearson (I)	4/0
David Waboso (joined 1 February 2019) (I)	0/1

Meeting attended · Meeting not attended · (I) Independent

Looking ahead

As we draw closer to the end of this current five-year regulatory period, the Committee will continue to focus on ensuring that we continue to promote clarity and transparency in all our reporting and oversee the Company's assurance framework, ensuring processes are appropriate and that published information is accurate, complete and reliable.

In addition, the Committee's responsibilities include traditional risk and audit reviews, along with oversight of financial, non-financial and regulatory reporting requirements. In 2017/18 we made a number of changes to our Annual Report, including combining it with our Annual Performance Report. We're pleased that Ofwat noted the significant improvements in our reporting in their annual Company Monitoring Framework assessment, which saw us move back up into "targeted" status.

In our 2017/18 Annual Report and Annual Performance Report, the Committee made a commitment to formally review compliance with Condition F6A of our licence (now referred to as the "Sufficiency of resources certificate") on a regular basis and report to the Board. This review has taken place at each meeting since June 2018.

The Committee understands and acknowledges its primary role of protecting the interests of shareholders and stakeholders as regards the integrity of published financial information by the Company.

In this role, the Committee oversees:

- the relationship with our external auditor, including assessment of their ongoing objectivity;
- assurance of regulatory submissions to Ofwat; and
- the internal audit function and approves its annual plan.

In performing its duties, the Committee has access to the services of the Risk, Audit and Assurance function, the Company Secretary and, if required, external professional advisers. The Committee will advise the Board on matters falling within the scope of its responsibilities. Such advice may be in the form of minutes of its meetings, supporting papers and written and oral reports at Board meetings.

Overview of the actions taken by the Audit, Risk and Reporting Committee to discharge its duties:

Financial and regulatory reporting

- Reviewed and recommended to the Board the 2018/19 Interim Financial Statements
- Reviewed and recommended to the Board the Statement of Risks, Strengths and Weaknesses and Draft Assurance Plans for 2018/19
- Reviewed the results of Ofwat's Company Monitoring Framework Assessment and plans to ensure we at least retain our current status.
- Reviewed and recommended to the Board the Final Assurance Plans for 2018/19
- Reviewed and recommended to the Board the 2018/19 Annual Report and Annual Performance Report, including specific review of going concern, formal considerations for approving the Sufficiency of Resources certificate for 2018/19 and Risk and Compliance statement
- Considered Financial Resilience and approved the Long-Term Viability Statement and covenant compliance certificates for 2018/19
- Reviewed our prioritised register of regulatory and legislative obligations
- Considered and approved the response to a routine letter from the Corporate Reporting Review Panel of the Financial Reporting Council which sought clarification on certain statements and disclosures within our 2017/18 Annual Report and Annual Performance Report

Treasury and tax

- Reviewed and approved the Annual Debt Prospectus
- Reviewed and approved the 2018/19 interim covenant compliance certificates
- Reviewed and approved the 2018/19 annual covenant compliance certificates
- Reviewed and approved the Company's capital allowance and tax strategy

External audit

- Received and reviewed regular reports from PwC and KPMG, our previous auditor
- Reviewed and approved the Company's non-audit services policy, which was updated to reflect changes in EU regulation for non-audit fees and the new 2018 Corporate Governance Code

Internal audit

- Considered and approved the Audit Plan for 2019/20
- Considered and approved the Internal Audit Charter
- Reviewed the open audit actions report
- Reviewed, in detail (through presentation by the risk owner), all red rated internal audits and status of actions to address the risks highlighted within the audits

Risk management and internal control

- Received and reviewed regular updates on the Company's top risks
- Reviewed and provided guidance to our approach to managing catastrophic loss risks
- Reviewed the appropriateness of our risk appetite statements
- Undertook a deep dive on risks associated with cyber security
- Received an update on mandatory training
- Received an update on internal controls – controls self-assessment
- Reviewed the internal controls testing results

2020-2025 Business Plan assurance

- Reviewed and approved the assurance framework over the 2020–25 Business Plan
- Established a Director sub-group, consisting of the ARRC Chair, Nick Land, and a Non-Executive Director, Kenton Bradbury, to provide regular and frequent detailed oversight through an extensive series of deep dive sessions
- Appointed PwC as our Strategic Assurance Partner to support design and delivery of a "best in class" assurance framework

Audit, Risk and Reporting Committee report continued

- Received and reviewed updates from internal and external independent assurers covering all elements of the 2020–2025 Business Plan including, but not limited to:
  - Alignment of proposed performance commitments with customer preferences;
  - Meeting Ofwat's challenges around efficiency, ambition and deliverability;
  - Meeting UK Government priorities and Water Industry National Environment Programme;
  - Maintaining compliance with our legal and regulatory obligations;
  - Resilience in the round and financeability;
  - Performance outcome rewards and penalties; and
  - Data accuracy, reliability and completeness.
- Reviewed and provided guidance on both the September and April 2020–25 Business Plan Board assurance statements

Other

- Received updates on the non-household revenue process and compliance with market rules
- Received an update on the dormant subsidiaries simplification programme
- Received updates on whistleblowing, investigations and action/s taken around unethical behaviour of individuals within and outside of the Company
- Received regular updates on the General Data Protection Regulations Accountability
- Reviewed and approved the Committee's amended terms of reference

Significant financial statement and reporting matters

Following the receipt of the routine letter from the Corporate Reporting Review Panel of the Financial Reporting Council ("FRC"), the response confirmed the following actions would be taken in our 2018/19 combined Annual Report and Annual Performance Report:

- Provide greater clarity around the accounting for Outcome Delivery Incentive rewards and penalties, making it more explicit that the financial impact of these is recognised through reduced revenues in a future period (see pages 62–73);
- Move the reference to the inherent uncertainty in determining the outcome of any legal disputes from the contingent liabilities note to the provisions note (see note 20);
- Be clearer around the policy adopted for classification of borrowing costs in the statement of cash flows (see page 160);
- Provide a reconciliation between the interest paid amount per the statement of cash flows and the interest paid note (see note 18 on page 201);
- Remove unbilled revenue from key areas of judgment and estimation uncertainty as changes in the judgments were not considered to result in material differences (see page 121)
- Include a range of possible outcomes and more analysis on the key sensitivities of our depreciation and amortisation charge (see page 179);
- Reference the inherent risk that the outcome of legal claims will be different to amounts provided (see note 20); and
- Use a consistent definition when referencing our external shareholders and include the definition in the glossary (see page 303).

At the date of this report, we have not had any further correspondence from the FRC in respect of our response.

The Committee considered the integrity of the 2018/19 combined Annual Report and Financial Statements of the Group and Annual Performance Report of the Company. In undertaking this review, the ARRC discussed the critical accounting policies and judgments applied with management and the external auditor, including meetings with PwC without members of management being present. It discussed a report from PwC identifying the significant accounting and judgmental issues that arose during the audit. The ARRC also considered going concern, long-term viability and covenant compliance, as well as the management letter for issues and judgments raised and is monitoring action taken by management as a result of audit recommendations. After discussion with both management and the external auditor, the ARRC reviewed work on the following key estimates and judgments within the Group's combined report.

Based on the Committee's review of papers presented, it is satisfied on the appropriateness of the basis for key judgmental areas. In reaching this conclusion the members of the Committee also considered the responses received to their questions and the reporting provided by PwC in these judgmental areas.

Significant estimates, judgments and key focus areas

The matters below relate to the key estimates, judgments and focus areas reviewed by the ARRC in respect of the financial statements for the year under review.

Significant estimates and judgments	Action taken
Bad debt provision	The Committee reviewed management's key assumptions underlying the bad debt provision via reviews of papers presented by management on the topic throughout the year, including a review of the debtors' ageing and the basis for cash collection and write-off rates in the year. The Committee also reviewed findings from PwC from their work on the annual and interim reports. Based on this review, the Committee was satisfied that potential bad debt was adequately provided for in the financial statements. The Committee acknowledged the change in risk profile for non-household debt, following the transfer of the Company's non-household retail customers to Castle Water in April 2017. Based on their review the Committee was comfortable with the level of bad debt provision recognised by the Company, including the judgmental impact of the level of historic and current cash collections, the effect of cancelling billings on expected debt recovery (for example, where the property occupier has moved without informing the Company or where the Company was unable to invoice for a period of time when the property was unoccupied) and the levels of debtors due to be collected on the Company's behalf (Water-only Company and non-household debtors).
Other provisions	The Committee reviewed the levels of provisions held by the Company throughout the year, questioning and challenging the basis for such provisions. The Committee was provided with details of the main assumptions around the recognition and valuation criteria applied over provisions. The Committee also reviewed findings from PwC from their work on the annual and interim reports. Based on the reviews and report the Committee concurred with the level of provisions made and management's judgment of the completeness and valuation of the provisions in relation to potential legal and regulatory claims and other matters.
Capex vs opex	The Committee has reviewed the classification of costs within the financial statements, gained an understanding of the key investment projects and year-on-year movements. The Committee also reviewed reports on the audit work PwC had undertaken in this area. Based on these reviews and discussions with both management and PwC, the Committee considers the classification of expenditure is appropriate. Given the significant investments that the Company makes in maintaining and improving its network infrastructure, the allocation of such expenditure between capital and operating costs is a critical area.
Valuation of financial derivatives	The Committee reviewed findings from PwC from their work on the annual and interim reports, and also discussed with the Group Treasurer the techniques applied. Based on the review and discussions, the Committee was content with the methodology applied to value derivatives in the balance sheet as at the year end date.
Valuation of defined benefit obligations	The Committee received a valuation report from Hymans Robertson LLP and considered the assumptions used compared to previous years and other companies. The Committee also reviewed findings from PwC from their work on the annual and interim reports. Based on the review and discussions, the Committee was content with the assumptions used to value the Company's defined benefit obligations as at the year end date.

Review of the annual financial statements

Prior to the 2018/19 combined Annual Report and Financial Statements and Annual Performance Report being presented to the Board for formal approval, the ARRC, at the request of the Board, considered whether the Report is fair, balanced and understandable and whether it provides the necessary information for all stakeholders to assess the Group's position and performance, business model and strategy. The ARRC considered the consistency of accounting policies across the Group; the methods used to account for significant or unusual transactions; whether the Group had followed appropriate accounting standards; and whether the Group had made appropriate estimates and judgments, taking into account the independent auditors' opinion on the annual report and financial statements. The ARRC further considered whether appropriate disclosure had been made in the financial statements, the Strategic Report, Directors' Report, Remuneration Committee Report and the Corporate Governance Report.

Based on consideration of the above items and the other work performed by the ARRC, the Committee advised the Board that, taken as a whole, the Annual Report and Financial Statements is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the approval of fees, and makes recommendations to the Board on their appointment and re-appointment. The Committee reviewed PwC's terms of engagement and the scope and execution of their audit work. The Committee assessed the independence and objectivity of the external auditors, considering relevant UK professional and regulatory requirements and the relationship with the auditors, including the provision of any non-audit services in accordance with the Policy for the Provision of Non-Audit Services.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented by the financial statements. Auditor independence and objectivity is safeguarded by reviewing the nature and value of non-audit services performed by the external auditors, ensuring that employees of the external auditors who have worked on the audit in the past two years are not appointed to senior financial positions within the Group and the rotation of the lead engagement partner at least every five years and key audit partner every five years. The current lead engagement partner, Katharine Finn, has held the position for one year, and has been a key audit partner for one year. The ARRC met with PwC on several occasions during the year without management present, providing the external auditors with the opportunity to raise any matters in confidence. In addition, the Chair of the ARRC met privately from time to time with PwC. Following this year's annual review, the ARRC is satisfied with the effectiveness, independence and objectivity of PwC.

Non-audit services

To safeguard the objectivity and independence of PwC, approval from the Committee Chairman is required for any services provided by the external auditor. As part of this process the Committee ensures that the external auditors are not permitted to perform any work that they may subsequently need to audit, or which could create a conflict of interest or constitute a breach of the external auditors' independence and objectivity. Non-audit services are normally limited to assignments which are closely related to the performance of the audit or where detailed knowledge of the Company is necessary for its completion. Total fees paid to the external auditor during the year ended 31 March 2019 for audit and non-audit services amounted to £2.1 million (see note 3) (2018: £1.2 million paid to KPMG, the Group's previous auditor) most of which related to assurance work relating to various submissions to Ofwat, the most significant being our PR19 business plan. Further detail can be found in note 3 to the statutory financial statements. The Committee considered the level of non-audit fees and safeguards put in place relating to non-audit work, including written representations from PwC which confirmed their independence, and was satisfied that the non-audit fees incurred have not resulted in a loss of independence or objectivity of the external auditor.

Auditor appointment

The Company adopts the same approach to audit tendering as a FTSE 100 company, ensuring the Company's compliance with the 2016 UK Corporate Governance Code and the reforms of the audit market by the UK Competition and Markets Authority. In alignment with the EU regulatory framework for statutory audit the Company plans to operate a ten-year tender process for its auditors; however, the ARRC may recommend that the Company puts the audit out to tender at any time, based on the results of the assessments of auditor independence and audit quality outlined above. PwC was appointed after a competitive tender for the 31 March 2019 financial year end audit. There are no contractual obligations restricting our choice of external auditors and no auditor liability agreement has been entered into by the Company.

Internal audit

The Committee monitored and reviewed the effectiveness of the Group's internal audit function in the context of the Group's overall risk management systems. In 2018/19 the Committee considered and approved the remit and activities of the internal audit function ensuring that it had adequate resources and appropriate access to information to enable it to perform its function effectively, in accordance with the relevant professional standards and was free from management or other restrictions.

The Committee reviewed and assessed the annual internal audit plan which contains a mix of risk based and cyclical reviews. The plan is delivered through appropriately skilled and qualified internal resources supported with external resources where more specialised skill sets are required, typically within Information Systems and Treasury. Inputs to the plan include principal risks, corporate priorities and objectives, external research and benchmarking of emerging risks and trends and discussions with members of the Executive team and senior managers. The plan is approved by the Committee in January each year with focus given to not only the areas which are being covered but also those that are not, to ensure that the plan aligns with the Committee's view of risks. During the year, the Committee considered reports on the Company from the internal auditors, including management's responsiveness to the findings and recommendations of the internal audit team. The Committee Chairman discussed high priority issues directly with the relevant members of management to ensure he had a thorough understanding of the matters raised and the process for resolution and held private meetings with the internal auditors.

Risk management and internal controls

The Board has overall responsibility for the Company's risk management framework and systems of internal control. These systems aim to ensure that risk is managed effectively, rather than eliminate risk completely, and can only provide reasonable, not absolute, assurance against material impact.

We are increasing our focus in this area to make it more effective and provide increased levels of support to the business. Our aim is to establish it as a management tool that focuses the business on the current exposures and vulnerability, and ensuring mitigating responses are either in place or planned.

The key features of risk management and our systems of internal control are a governance model whereby our Board delegates responsibility for certain matters of risk and control to a number of committees in line with best practice.

Risks are prioritised, according to our defined risk scoring criteria, allowing for the most significant risks to be monitored quarterly by Senior and Executive Management, our Audit, Risk and Reporting Committee and our Board. These reviews form the basis for our annual principal risks and uncertainties disclosure.

As part of our continuous improvement process, we are reviewing our Board governance and how decision making is delegated through our organisation as well as making these arrangements more transparent, comprehensive business planning, risk assessment and financial reporting procedures, including:

- The annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- A risk management process that reports on the Company's risk profile, identifies risks to the delivery of our strategic business objectives, assesses the impact of these risks should they materialise, and the likelihood of this happening;
- A framework of corporate policies, supported by operating standards and procedures, and authorisation and approval processes 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;
- An annual Controls Self-Assessment process, that has evolved during the year, and which requires senior management to report on the maturity and effectiveness of the key internal controls in operation within their business area, identify opportunities for improvement and to implement remedial action where required. A holistic view of the outcomes of this process provides a targeted and effective programme for improvement of our internal control environment;
- An annual internal 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
- Reports on risk and systems of internal control produced by the Risk, Audit and Assurance team and external auditor.

The ARRC routinely reviews the effectiveness of the risk management arrangements and systems of internal control and, principally by means of reports in respect of the above activities, makes reports to the Board thereon. The ARRC kept the adequacy and effectiveness of the Company's risk management and systems of internal control under review in 2018/19. The ARRC approved for recommendation to the Board the statements to be included in the 2018/19 statutory and regulatory reports concerning risk management and systems of internal control. The ARRC ensured that there were clear reporting lines for all issues associated with risk management and reviewed the adequacy of structures, processes and responsibilities for identifying and managing risks facing the organisation. The Committee was satisfied that appropriate work was undertaken developing the maturity of risk management. The ARRC reviewed the principal risks and uncertainties appearing on pages 38–44.

Fair, balanced and understandable

In conclusion, the Committee is satisfied that the 2018/19 Annual Report and Financial Statements, taken as a whole, provide:

- A fair, balanced and understandable assessment of the Group's position; and
- The information necessary for shareholders to assess the Group's performance, business model and strategy.

To make this assessment, members of the Committee received drafts of the combined Annual Report and Annual Performance Report to review early in the process to ensure that key messages set out in the Report are aligned with the Group's position, performance and strategy, and that the narrative sections were consistent with the financial statements. The significant issues considered by the Committee in relation to the 2018/19 financial statements included those identified by the external auditor in its report on pages 150–155.

Nick Land,
Chair of the Audit, Risk and Reporting Committee
27 June 2019

Regulatory Strategy Committee report

“PR19 will continue to dominate the Committee’s work in 2019/20, as it manages the Draft Determination in July 2019 and the Final Determination at the end of 2019.”

Alistair Buchanan
Chair of the Regulatory Strategy Committee

At a glance

I am pleased to present my first Regulatory Strategy Committee report which describes the activities and areas of focus during the year.

In February 2019, the Committee changed its name from Strategy and Business Planning Committee to Regulatory Strategy Committee so as to provide appropriate Board engagement and scrutiny as well as available time to focus on the Company’s PR19 related activities at this important juncture.

PR19 will continue to dominate the Committee’s work in 2019/20, as it manages the Draft Determination in July 2019 and the Final Determination at the end of the year. The Committee will also be considering issues on a wider canvas to include collaboration with other water companies on water resources, stakeholder engagement and regulatory requirements as well as the various party political plans such as nationalisation.

The role of the Committee

The Committee has primary responsibility for regulatory and compliance matters linked to the corporate strategy and the business plan.

Membership and attendance

During the year, Alistair Buchanan succeeded Ian Marchant as Committee Chair in November 2018. Including the Chairman, the Committee consists of three Independent Non-Executive and two Non-Executive Directors.

The Company Secretary acts as secretary to the Committee; thereby ensuring that all of the information required by the Committee to operate effectively is available. Any person (including but not limited to any Executive Director or member of the Executive team) may attend meetings by invitation.

Committee activities during the year 2018/19

- While the Audit, Risk and Reporting Committee focused on overseeing the assurance of the PR19 submission, the Committee provided guidance and challenge for the finalisation of the submission prior to review by the full Board
- The Committee was updated and provided feedback as well as oversight on the work undertaken on the PR19 business plan on a regular basis which included considering the results of customer consultation and stakeholder engagement
- The Committee reviewed the Company’s proposed performance commitments and outcome delivery incentive for AMP7
- The Committee considered and provided feedback to the Board on Ofwat’s IAP
- The Committee reviewed, challenged and provided guidance to the Board on the Company’s response to Ofwat’s IAP

Attendance

Membership of the Board during 2018/19	Meetings attended/not attended
Alistair Buchanan (I)	9 attended, 0 not attended
Ian Marchant	10 attended, 0 not attended
Kenton Bradbury	10 attended, 0 not attended
Ian Pearson (I)	9 attended, 1 not attended
Greg Pestrak	7 attended, 2 not attended
Ed Richards (I)	8 attended, 2 not attended
Guy Lambert	3 attended, 1 not attended

Meeting attended Meeting not attended (I) Independent

- The Committee received and reviewed updates on other regulatory developments including on Ofwat’s proposed licence modifications and its Board, Leadership, Transparency and Governance principles
- The Committee considered and reviewed the Ofwat “freeze/thaw” response

Alistair Buchanan
Chair of the Regulatory Strategy Committee
27 June 2019

Customer Service Committee report

"The purpose of the Committee is to advise the Board of the needs and priorities of customers and to ensure high quality, effective services are provided to their satisfaction, both now and into the future."

Catherine Lynn
Chair of the Customer Service Committee

At a glance

The purpose of the Committee is to advise the Board of the needs and priorities of customers and to ensure high quality, effective services are provided to their satisfaction, both now and into the future.

The Committee looks at all users of our services including retail, wholesale, developer services customers, and the wider community within which we operate. The focus the Customer Service Committee gives shows the level of commitment of the Board and the Executive team in putting the customer at the heart of our business, and ensuring there is quality assurance, governance, support and challenge, delivering better outcomes for all our customers.

The role of the Committee

The core objectives of the Committee are to review, advise and challenge operational performance, customer management strategy and customer consultation and engagement and include:

Strategy – Review the development of the customer strategy reflecting the challenges faced by the Company.

Performance – Review the current Company position and performance against regulatory commitments, industry comparators and external cross-industry best practice. Key areas of focus have included customer satisfaction, incident management, complaint resolution, affordability and vulnerability.

Customer consultation and engagement – Review and challenge the breadth and effectiveness of customer communication channels, scope of consultation on strategic projects and initiatives, and focused engagement with customers on priority topics such as leakage and resilience.

During the year, the Customer Service Committee received updates on the delivery of our customer services strategy and our customer service performance. After an improving trajectory during 2017/18, our Service Incentive Mechanism score (SIM) and complaints performance for 2018/19 were disappointing (see pages 62–65 for customer performance information). As a Committee, we're working with senior management to ensure the right foundations are put in place to improve customer service in the coming years, and to measure progress ensuring a fair, consistent and transparent approach, in line with our Company culture.

As a Committee we've devoted time to ensuring the Company delivers the commitments outlined in the "freeze thaw" report, submitted to Ofwat in September 2018, as well as improving incident management, customer engagement and pursuing our strategies for increasing support for customers in vulnerable circumstances. As part of this, we've spent time in our customer service centre in Swindon, reviewing the technical and business readiness of our new customer relationship management and billing system (see page 50) and reviewing our strategy and progress to support customers in vulnerable circumstances.

Attendance

Membership of the Board during 2018/19	Meetings attended/not attended
Catherine Lynn (joined 28/11/2018) (I)	1 attended
Greg Pestrak	3 attended
Lorraine Baldry (resigned 28/03/2019) (I)	3 attended
Nick Land (I)	3 attended
Jill Shedden (joined 01/10/2018) (I)	1 attended
Deirdre Hutton (resigned 31/01/2019) (I)	2 attended

Meeting attended   Meeting not attended   (I) Independent

Membership and attendance

The Committee is made up currently of four Non-Executive Directors – Catherine Lynn (Chair), Jill Shedden, Greg Pestrak and Nick Land, three of whom are independent. The composition of the Committee has evolved over the past year with the appointment of a new Chair and a new Non-Executive Director. Dame Deirdre Hutton and Lorraine Baldry resigned with effect from January 2019 and March 2019 respectively.

The Executive Directors and Company Secretary are invited to attend all meetings to ensure the availability of information required by the Committee for it to operate effectively. Other members of senior management are invited to attend when appropriate.

Customer Service Committee report continued

Committee activities during the year 2018/19

There were four core areas of activity for the Committee, focused on improving customer service:

- **Customer engagement**
  Attended several customer research sessions, held to inform the business planning process for 2020 to 2025 and covering topics such as drought resilience, chalk stream protection, North East London resilience and performance commitments, and Outcome Delivery Incentives (ODI).

  Participated in a customer immersion programme, meeting customers face-to-face to understand their experience of supply interruptions, low pressure and leakage.
- **Improving customer experience**
  Provided oversight, direction and challenge of customer service improvement strategy.

  Oversaw plans for the transition of the first tranches of customers to our major new customer relationship management and billing system; improvements to customer support during incidents; and increasing support for customers in vulnerable circumstances.
- **Customer incident management**
  Regular review of our progress against the commitments outlined in our "freeze thaw" report, which was submitted in September 2018. 96% are either completed or "on track", delivering improvements to customers in areas such as more accurate weather modelling, increased numbers of flexible field resources and satellite water stations and clearer incident communications. We have also trained and recruited contact centre agents to support in peak demand periods (and agreed with partners to scale up resources) – supported by the addition of a "No Water" IVR option.
- **Vulnerability and affordability strategies**
  As we pursue our commitment to drive a step change in support for customers in vulnerable circumstances during the next regulatory period, the Committee has been overseeing initiatives including the simplification of social tariffs and working with charities such as Age UK to increase engagement with their members.

Catherine Lynn
Chair of the Customer Service Committee
27 June 2019

David Waboso
Chair of Health, Safety & Environment Committee

"The Committee is responsible for reviewing and advising on our health, safety and environmental policies and the implementation of and compliance with policies, applicable guidance and standards."

At a glance

The Committee met four times in this reporting period with representation from Non-Executive and Executive Directors alongside specialist health, safety and environmental experts within the Company. The Health, Safety and Environment Committee was established to provide greater visibility of both the health and safety and environmental controls in place that lead to reduced injury, illness and pollution incidents.

The establishment of this Committee was approved by the Board in April 2018. The Committee is chaired by David Waboso and presently comprises Nick Land, John Morea, Catherine Lynn and Kenton Bradbury, with the CEO, Chief Operating Officer, Chief Delivery Officer and Chief Health, Safety & Security Officer being permanent attendees.

The inaugural meeting of the Committee was held on 6 June 2018 and the Committee, at the request of the Board, reviewed and refined its terms of reference which were presented to the Board for approval.

At each Committee meeting there has been a presentation on the health, safety and environmental performance, which includes key leading and lagging performance indicators monitored, regulatory engagement, statutory compliance and cultural evolution.

The role of the Committee

The Committee is responsible for reviewing and advising on our health, safety and environmental policies and the implementation of and compliance with policies, applicable guidance and standards. The Committee provides relevant challenge to the business and is responsible for reviewing significant health, safety and environmental trends and incidents and using the learnings to develop and promote a culture of continuous improvement in all aspects of Health, Safety and Environmental management at Thames Water.

The Committee also undertakes deep dives into specific areas of interest or concern to the Board. In addition, the Committee considers the strategy and performance for pollution and environmental impact prevention/reduction and receives updates on any current or potential environmental and Health and Safety prosecutions.

Membership and attendance

The Committee is made up of three Independent Non-Executive Directors; David Waboso (Chair), Nick Land and Catherine Lynn and two Non-Executive Directors, John Morea and Kenton Bradbury.

Attendance

Membership of the Committee during 2018/19:	Meetings attended/not attended
Dame Deirdre Hutton (previous Chair) (resigned/stood down from the Board of Thames Water 31 January 2019) (I)	2 attended / 1 not attended
David Waboso (Chair) (joined Board on 1 February 2019) (I)	1 attended
Nick Land	3 attended / 1 not attended
Kenton Bradbury	3 attended / 1 not attended
Catherine Lynn (joined Board on 28 November 2019) (I)	1 attended
John Morea	1 attended
Ian Marchant (stood down from the Committee on 1 February 2019)	3 attended

Meeting attended | Meeting not attended | (I) Independent

Committee activities during the year 2018/19

The Committee has undertaken several deep dives into specific risk areas including:

- Trunk mains high consequence valves across our water main network
- Large diameter tunnels and shafts on both our raw and potable water ring main networks
- Security on our sites including our critical national infrastructure sites
- Toxic gas systems
- Drinking water quality controls
- Pollution and environmental performance review

David Waboso
Chair of the Health, Safety and Environment Committee
27 June 2019

Remuneration

Jill Shedden
Chair, Remuneration Committee

Highlights:

- **No increase in earnings for CEO** in 2018/19 compared to average employees 3.5%.
- **Stretching incentive targets**, aligned to be the same for all employees, are focused on delivering great customer, environmental and financial performance.

Chairman's statement

I am pleased to present our Remuneration Committee Report for the year ended 31 March 2019. The objective of the Directors' Remuneration Report for 2018/19 is to set out in a simple and transparent way how we paid our Directors (both Executive and Non-Executive) during 2018/19. The report also describes how the Remuneration Committee works and how it has successfully linked reward to the Company's strategic priorities and delivering value for its customers.

I joined as the Chair of the Remuneration Committee ("the Committee") in October 2018, bringing over 25 years of Human Resource experience, most recently as Group Human Resources Director at Centrica since 2011. It's an exciting time to join Thames Water and I take great confidence from the fact that the Committee brings together an outstanding team of highly experienced Directors with a wide range of professional experience. I look forward to further developing the already industry leading approaches.

During the next financial year, the Committee will complete a full review of our remuneration policy to ensure it keeps pace with the demanding standards set by our stakeholders. We have already been considering some key elements including the requirements of the 2018 UK Corporate Governance Code. We have also been focused on strengthening the governance of Directors' remuneration to ensure we meet our commitment to clearly link pay with the delivery of stretching customer and regulatory outcomes. Details of these developments are provided in this report.

Our approach to remuneration

The primary objective of our remuneration approach is to ensure competitive reward packages are offered which will attract, retain and motivate talented senior leaders to deliver great outcomes for our customers, shareholders and other stakeholders. The core principles of our approach to remuneration, which are unchanged from 2017/18, are outlined below:

- Remuneration should be aligned with the interests of the Company's stakeholders, in particular our customers and external shareholders
- The policy should promote the long-term success of the Company and ensure that it clearly links with the Company's strategic priorities
- The remuneration policy should establish clear links between all our employees', including Executive Directors' reward and the Company's performance
- Remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience
- Remuneration should include a mix of fixed and variable pay comprising basic salary plus performance related incentives

Linking Executive Directors' remuneration with the Company's purpose and strategy

We are committed to our purpose of building a better future delivered through our strategic priorities. The Committee has aligned our approach with our strategy as well as the principles in Ofwat's "Putting the sector in balance" report, directly linking performance and reward. This is reflected in our industry leading approach to incentives including the 2019 Long-Term Incentive Plan (LTIP) where 80% of the targets are focused on customer outcomes.

Targets in the annual management bonus have also been set to enable delivery of the critical customer outcomes in the LTIP. For example, reducing complaints, primarily through resolving customer issues more quickly, is critical to improving customer satisfaction and improving customer delivery outcomes such as leakage and pollutions. The review the Committee is undertaking during 2019 will continue this approach and ensure our remuneration policy remains industry leading in the next regulatory period.

"The primary objective of our remuneration approach is to ensure competitive reward packages are offered which will attract, retain and motivate talented senior leaders to deliver great outcomes for our customers, shareholders and other stakeholders."

Jill Shedden
Chair, Remuneration Committee

Remuneration outcomes in 2018/19

The lasting impact of extreme weather on our network influenced performance during the year. While the cost of the additional investment and the diversion of resources resulted in us not achieving all our targets, there have been significant improvements across the business. Complaints had increased largely due to the "freeze thaw" event; however, Thames Water's Relationship Net Promoter Score (NPS) improved from -29 to -17, our best score in over three years. We took learnings from the "freeze thaw" incident and we handled the summer heat wave exceptionally well.

We maintained our environmental performance and Sewer Flooding Other Causes (SFOC) is ahead of target and achieved a £3 million reward. There has been a modest reduction in leakage, but crucially a number of leading indicators including improvements in cycle times for fixing visible leaks and lead mains replacements are ahead of target. Across all areas safety remains a priority and outcomes remain industry leading. Supporting these improvements have been successful programmes including the ongoing deployment of a new customer relationship management system which is on target for delivery in March 2020 and the re-structure of our IT and operational alliances enabling improved performance as we move into AMP7.

Our performance against annual bonus targets is detailed on page 128 and shows a year-on-year reduction in payments by 10.3% compared with 2017/18. For the two eligible Executive Directors (CFO and Director of Strategy and Regulation), this has resulted in an annual bonus pay-out of 59.7% of maximum (2017/18 outcome: 70% of maximum).

Executive Director changes

As has been reported elsewhere Steve Robertson stepped down as CEO at the end of May 2019. This report reflects payments in 2018/19 and full details of all payments for 2019/20 will be disclosed in the 2019/20 report.

Strategy and Regulation Director, Nick Fincham, stepped down as Executive Director from the Board at the end of March 2019. This is an agreed arrangement as part of the governance review to ensure a majority on the Board are Independent Non-Executive Directors. Nick will remain as a member of the Executive team to complete the PR19 process and intends to leave the Company by 31 March 2020. As Nick will no longer be an Executive Director in 2019/20, details of Nick's remuneration are outlined in the next section of this report on page 135.

Jill Shedden
Chair, Remuneration Committee
27 June 2019

Remuneration at a glance

The "At a glance" section contains remuneration for our three Executive Directors, Steve Robertson (CEO), Brandon Rennet (CFO) and Nick Fincham (Strategy and Regulation Director), who were in post during the 2018/19 financial year.

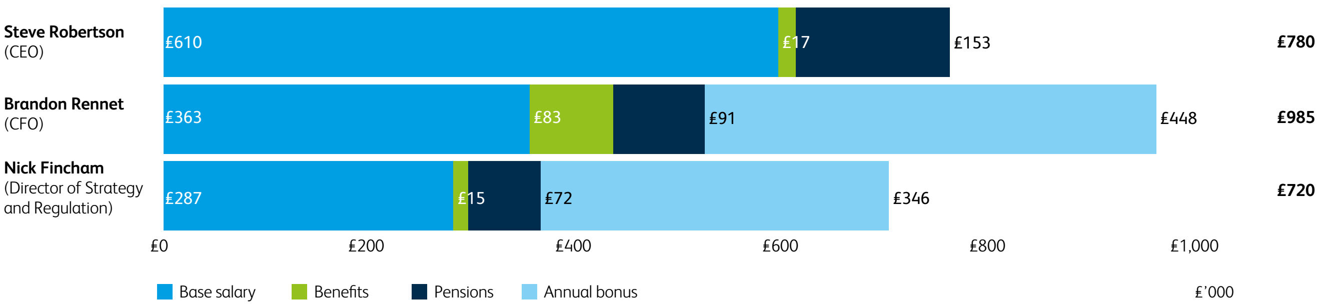
2018/19 remuneration outcomes

Single total figure of remuneration for Executive Directors 2018/19

The chart below shows how the delivery of our strategy has flowed through to the rewards provided to our Executive Directors and provides a summary of total single figure of remuneration for 2018/19. Full explanatory notes for each element of remuneration are detailed on page 135 in the Annual Report on Remuneration.

For the year ended 31 March 2019, the CEO received a base salary only. All his incentive opportunities, both short-term and long-term, have been deferred for a three year period until the agreed transformation plan is delivered in March 2020. Therefore, there is no incentive or payment due to the CEO for 2018/19.

Total payments due to Executive Directors 2018/19



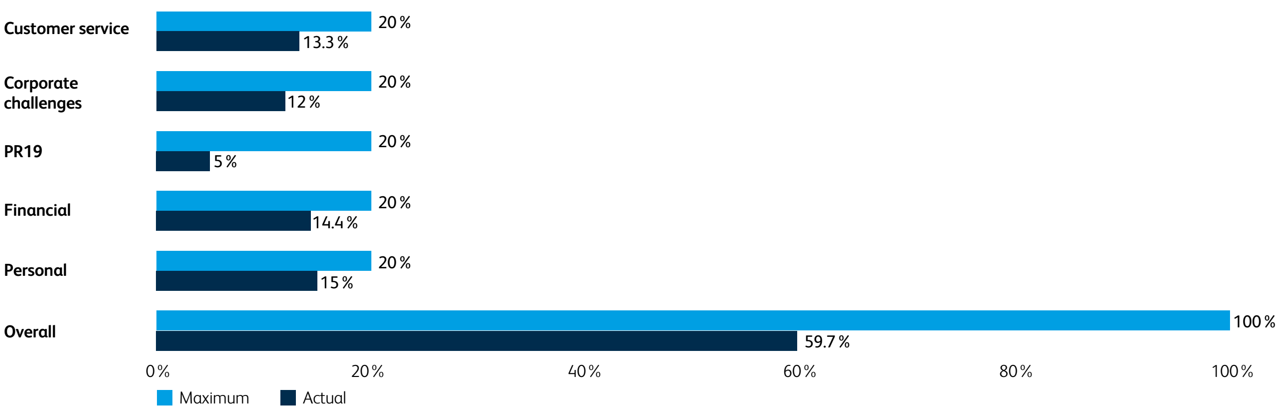
All CEO incentive payments deferred to 2020.

Annual Management Bonus outcomes 2018/19

As outlined above, the CFO and Strategy and Regulation Director are eligible to receive an award under the Annual Management Bonus scheme in relation to 2018/19 performance. An annual bonus of 59.7% was awarded. Further details are set out on pages 136–137 in the Annual Report on Remuneration.

The actual performance against maximum targets of 2018/19 Annual Management Bonus scheme is as follows:

Annual Management Bonus scheme 2018/19



Long-term incentives

There is no LTIP payment due for the period 2018/19. The long-term incentive schemes detailed in last year's report (the CEO Incentive, the Transformation Incentive for Executives and Senior Managers and the Share in Your Success Incentive for non-managers) are only payable in 2020 after the end of the performance period 2019/20.

Percentage change in CEO remuneration compared to employees

The figures below present the percentage change in CEO remuneration from 2017/18 to 2018/19, by comparison to all employees in the Company, showing remuneration on a like-for-like basis to the prior year. While there were annual salary increases for the wider workforce, there were no changes to benefits.

Employee group	Base salary	Bonus	Taxable Benefits
Change in CEO remuneration	0%	0%	0%
Change in employee remuneration	3.5%*	10.3%**	0%

* Includes promotional increases. The headline salary increase for employees was 2.65%

** The number of employees eligible for bonus increased by 20% compared with 2017/18. All managers of the Company, excluding the CEO were eligible to participate in the Annual Management Bonus plan. For this reporting period (2018/19), the corporate element of the annual bonus was 10.3% less than for the period 2017/18. The corporate element in 2017/18 made up 100% of the bonus and 80% in 2018/19. Personal elements are determined by individual assessment and vary each year.

CEO pay ratio

In line with the new regulatory requirements, the table below sets out the CEO ratio at median, 25th and 75th percentile of the total remuneration received by the CEO compared to the total remuneration received by our employees. The median ratio is low by comparison to other published CEO pay ratios, largely due to the fact that any payment for Steve Robertson, under the CEO Incentive is deferred until 2020.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	**Option A**	29:1	21:1	15:1

Overview

This part of the Directors' Remuneration Report sets out a summary of Thames Water's principles on remuneration for Executive and Non-Executive Directors. These principles are designed to attract, retain and motivate our leaders and senior management and ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of the Company as follows:

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

The Remuneration Committee monitors the remuneration arrangements to ensure there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the Company's strategic priorities which are focused on delivering excellent performance for customers and other stakeholders. Where performance targets are met senior management will be rewarded through the annual bonus and a long-term incentive. This means that approximately 2/3rds of an Executive's total remuneration is at risk if targets are not delivered.

Directors' remuneration policy table

The overall principles to the remuneration policy will remain unchanged in 2018/19. We summarise the key elements of our policy below:

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Base salary Purpose and link to strategy **To attract and retain high calibre Executive Directors and to recognise their responsibility to deliver our strategy.**	Payable in cash in 12 monthly instalments during the year and reviewed annually, with changes typically effective from 1 July. The Committee's review will take into account an individual's performance, the external market and internal and external economic factors.	Annual salary increases will not normally exceed average increases for the wider workforce. Individual adjustments may be applied where the Committee considers this to be necessary due to one or more of the following factors: • Where role scope has changed or as part of salary progression (for newly appointed Directors); • Where market conditions indicate a level of under-competitiveness; or • There is considered to be a risk in respect of attracting and retaining Executives. Where the Remuneration Committee exercises its discretion to recommend increases above the average for other employees, the resulting salary will not exceed the competitive market range.	None
Benefits Purpose and link to strategy **To provide market competitive benefits consistent with role, which drive employee engagement and commitment to our business.**	Provision of benefits such as: • Car allowance; • Private medical insurance; • Relocation assistance; • Group income protection; • Life assurance; and • 26 days holiday, increasing with length of service to 30 days maximum after six years completed service. The CEO may also receive a housing allowance where appropriate. Executive Directors will be eligible for other benefits which are available to the wider workforce.	Whilst there is no set maximum, benefits will be provided at a rate commensurate with the market.	None

Element of remuneration	Operation	Maximum opportunity	Performance conditions
Pension allowance Purpose and link to strategy **To attract and retain high calibre Executive Directors through the provision of cost effective saving benefits for retirement.**	Payable in cash in 12 monthly instalments during the year, directly to the individual or into their pension scheme.	Contribution of 25% of base salary for Executive Directors.	None
CEO Incentive (CEO) Purpose and link to strategy **To motivate and incentivise the CEO to deliver the transformation programme and achieve the Company's key strategic customer, environmental, asset health and financial objectives.**	The CEO Incentive is a one-off award which will be payable four months after the end of the 2019/20 financial year based on performance over a three year performance period (1 April 2017 to 31 March 2020). Any payment remains subject to the absolute discretion of the Board to reduce in whole or in part. The scheme is subject to a clawback arrangement for a period of two years after the payment is made.	Payment for on-target performance under the scheme will be £3,750,000. The maximum payment for stretch performance will be £7,500,000. The maximum amount will only be payable at the discretion of the Board and will be fully funded by external shareholders. The minimum payment under the scheme is £nil.	Payment is based on customer, regulatory, environmental, operational and financial performance. Further details are provided on **page 137**.
Annual Management Bonus (This element is not available for the CEO but remains in place for all other Executive Directors) Purpose and link to strategy **To motivate and incentivise the Executive Directors to achieve the Company's key financial, customer and operational priorities through a combination of financial, customer and personal performance targets.**	Payable four months after the end of the financial year to which they relate. Payments are made subject to the satisfaction of predetermined targets set at the start of the year and approved by the Committee. Any payment remains subject to the absolute discretion of the Board to reduce in whole or in part. The scheme is subject to a clawback arrangement for a period of two years after the payment is made.	A maximum annual potential of up to 200% of salary. The minimum payment under the scheme is £nil.	Payments are predominantly based on customer, operational and financial performance, with a minority based on achievement of personal objectives. Further details are provided on **page 136**.
Transformation Incentive (available for all Executive Directors excluding the CEO) Purpose and link to strategy **To motivate and incentivise the Executive Directors to deliver the stretching transformation plan. This includes the delivery of outstanding performance for our customers, and the achievement of the Company's key financial, customer, operational and strategic performance targets.**	The Transformation Incentive will be payable four months after the end of the 2019/20 financial year based on performance over a two year performance period (1 April 2018 to 31 March 2020). Any payment remains subject to the absolute discretion of the Board to reduce in whole or in part. The scheme is subject to a clawback arrangement for a period of two years after the payment is made.	The scheme has a maximum opportunity of 200% of salary. The minimum payment under the scheme is £nil.	Payment is based on customer, regulatory, environmental and operational performance. Further details are provided on **page 137**.

Directors' remuneration policy continued

Notes to the policy table
Each year, the Remuneration Committee and Board review and approve the basic salaries, bonus scheme design, bonus payments and longer-term incentive plan payments that are recommended for the Executive Directors. The Board includes representatives of each of the external shareholders and Independent Non-Executive Directors, therefore their views are directly taken into account when determining these matters.

Clawback
As previously disclosed, clawback provisions apply to the Executive Directors' incentive arrangements. These provisions allow the Committee, in its discretion, to reclaim awards paid to individuals for up to two years with respect to the Annual Management Bonus, the CEO Incentive and the Transformation Incentive. Such circumstances for clawback may include, but are not limited to, a material misstatement, any error in the calculation of an award or an error in the underlying results that leads to an overpayment of any bonus or incentive payment or material wrongdoing.

During the review of our remuneration policy we will determine if this can be strengthened even further by including withholding approaches.

Our approach to remuneration on recruitment
Executive Directors
The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment. The remuneration package offered will be in line with the market and will be no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements, and be subject to the same constraints, as those for existing Executive Directors (as set out on pages 130–131 of this report).

It is at the discretion of the Committee whether to make any additional payments to a new Executive Director, arising from forfeited remuneration when leaving a previous employer.

Non-Executive Directors ("NEDs")
Remuneration levels are set to enable us to attract NEDs who have a broad range of relevant experience and skills to oversee the performance of the Company and the implementation of our strategy. The Chairperson and NED fees are proposed by the Remuneration Committee and approved by the Board. Annual fees are paid throughout the year and are reviewed on a regular basis against those of NEDs in companies of a similar scale and complexity and requiring a similar time commitment. The fees were last reviewed in March 2019 and found to be competitive, therefore it was agreed that the current rates will continue. NEDs are not eligible to receive further benefits, do not participate in any performance related arrangements and do not participate in the Thames Water pension plans.

Payment for loss of office
As indicated earlier in the report, Nick Fincham stepped down as an Executive Director from the Board at the end of March 2019 following an agreed arrangement. This transition is part of the review of governance to allow a majority of Independent Non-Executive Directors to be more involved on the Board. Nick will remain a member of the Executive team to complete the PR19 process and intends to leave the Company by 31 March 2020.

In accordance with our Remuneration Policy, Nick will continue to receive his current contractual entitlements through to his departure by March 2020. On leaving, Nick will receive a payment in lieu of notice including base salary, pension and car allowance, and will remain eligible for a payment under the Annual Management bonus and Transformation Incentive in 2020, subject to performance in 2019/20. This treatment was agreed in order to give the Company greater flexibility to identify and recruit the best replacement. All payments made will be made in line with the Company's remuneration policies.

Service contracts and policy on payment for loss of office

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

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

Directors' remuneration in the context of wider workforce remuneration

The Company's philosophy is to provide a fair and consistent approach to pay. Remuneration for other employees is determined by level and is broadly aligned to the Executive Directors', resulting in all employees working towards achieving outstanding outcomes for our customers and stakeholders.

The Remuneration Committee invites the HR Director to present proposals for the annual salary review for managers and employees (including the Executive team) in February each year. Any other changes to remuneration policy within the Company are presented as and when they arise. The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases for Executive Directors.

Although employees are not consulted directly on the Executive Directors' remuneration policy, employee engagement surveys are carried out annually which include metrics and encourage feedback on pay and benefits. In addition regular discussions take place with trade union and employee representatives on the pay and benefits not only for employees covered by collective bargaining but on the wider employee population. In accordance with the 2018 UK Corporate Governance Code the Board has designated Ian Pearson (Independent Non-Executive Director) to support enhanced Board engagement with the workforce and ensure consideration of workforce issues.

The Company's defined benefit schemes are closed to new members. All new employees have the option (subject to auto-enrolment provisions) to join the Company's Stakeholder scheme which is defined contribution. During the review of our remuneration policy we will consider how to deliver the alignment of Executive and workforce pensions.

Share in Your Success 2020 for all non-manager grade employees

All employees in non-managerial grades are eligible for a potential payment of up to 5% of salary in 2020 for delivery of the transformation plan under an arrangement called "Share in Your Success 2020". The objectives and measures for this payment are the same as those detailed in the Transformation Incentive and CEO Incentive, relating to regulatory outcomes for environment and asset health, and stretching targets for customer service performance (see page 13).

Eligible employees are automatically enrolled into this incentive programme and the payment is awarded pro rata to service during the performance period on delivery of the objectives, subject to employees being in service at the payment date.

Together these incentives and payments demonstrate the Company's commitment to providing a coherent and consistent approach to rewarding delivery of excellent customer, regulatory and stakeholder performance.

Annual Report on Remuneration for 2018/19

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

Single total figure of remuneration for Executive and Non-Executive Directors (audited) for 2018/19 and 2017/18

	Salary/fees £'000		Taxable benefits £'000		Annual bonus £'000		Pension related benefit £'000		Total Group £'000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive Directors:										
S Robertson[1]	610	595	17	15	–	–	153	135	780	745
B Rennet[2]	363	325	83	13	448	432	91	81	985	851
N Fincham[3]	287	280	15	13	346	375	72	70	720	738
Chairman:										
I Marchant	325	68	–	–	–	–	–	–	325	68
Independent NEDs:										
L Baldry[4]	60	60	–	–	–	–	–	–	60	60
A Buchanan[5]	48	n/a	–	–	–	–	–	–	48	n/a
Dame D Hutton[6]	58	70	–	–	–	–	–	–	58	70
N Land	75	75	–	–	–	–	–	–	75	75
C Lynn[7]	24	n/a	–	–	–	–	–	–	24	n/a
E Richards[8]	60	60	–	–	–	–	–	–	60	60
J Shedden[9]	35	n/a	–	–	–	–	–	–	35	n/a
I Pearson	60	60	–	–	–	–	–	–	60	60
D Waboso[10]	12	n/a	–	–	–	–	–	–	12	n/a
Non-Executive NEDs:										
K Bradbury	50	50	–	–	–	–	–	–	50	50
C Deacon	60	60	–	–	–	–	–	–	60	60
G Lambert[11]	50	50	–	–	–	–	–	–	50	50
J Morea[12]	11	n/a	–	–	–	–	–	–	11	n/a
G Pestrak[13]	50	25	–	–	–	–	–	–	50	25
Total	**2,238**	**1,778**	**114**	**41**	**794**	**807**	**316**	**286**	**3,463**	**2,912**

Notes:

1. Steve Robertson's remuneration for 2018/19 reflects annual salary, car allowance £15,000, annual pension of 25% of salary and around £2,100 for medical benefits.
2. Brandon Rennet's remuneration for 2018/19 reflects annual salary (£325,000 for three months and £375,000 for nine months), car allowance £12,500, annual pension of 25% of salary, around £2,100 for medical benefits and relocation allowance of £68,072.
3. Nick Fincham's remuneration for 2018/19 reflects annual salary (£281,875 for three months and £289,000 for nine months), car allowance £12,500, annual pension of 25% of salary and around £2,100 for medical benefits.
4. Lorraine Baldry's contract ended on 28 March 2019.
5. Alistair Buchanan's fee pro-rated to contract start date 1 July 2018.
6. Dame Deirdre Hutton's contract ended on 31 January 2019.
7. Catherine Lynn's fee pro-rated to contract start date 8 November 2018.
8. Ed Richards' contract ended on 28 March 2019.
9. Jill Shedden's 2018/9 fee pro-rated to contract start date 1 October 2018.
10. David Waboso's fee pro-rated to contract start date 1 February 2019.
11. Guy Lambert's fee pro-rated to end of contract date 28 January 2019.
12. John Morea's fee pro-rated to contract start date 28 January 2019.
13. Greg Pestrak's fee pro-rated to June 2018 to reflect committee membership.

Of total Executive Directors' remuneration of £2,483,089 (2018: £2,333,883), £1,738,162 (2018: £1,633,718) is for the Executive Directors for their services to Thames Water Utilities Limited and has been disclosed within note 4 to the financial statements. In addition, the Executive Directors received total remuneration of £744,927 (2018: £700,165) for their services to other companies within the Kemble Water Holdings Limited Group. No operational distinction is made between services provided by the Directors to one or the other.

Directors' remuneration policy continued

Additional requirements in respect of the single total remuneration figure table

Base salary (audited)

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

There was no base salary change for CEO, Steve Robertson. Other Directors are awarded salary increases on the same basis as other employees. This means an annual increase (in 2018/19, this was 2.65%) unless their role has substantively changed, they are on a development plan or the salary has been reviewed and showed that the salary for their role was below industry benchmark.

Benefits

For Executive Directors, benefits are unchanged from 2017/18. These benefits are a car allowance of £12,500 (£15,000 for CEO) and private medical insurance.

Annual Management Bonus (audited)

For 2018/19, all managers of the Company, excluding the CEO, were eligible to participate in the Annual Management Bonus plan. The performance period was from 1 April 2018 to 31 March 2019 with the potential for a payment in July 2019. For Executive Directors, the delivery of targets will result in a maximum payment of up to 200% of annual salary.

The 2018/19 Annual Management Bonus scheme was assessed by the Remuneration Committee and approved by the Board against a number of performance areas as follows:

Annual Management Bonus 2018/19

Bonus element	Objective	Weighting as a % of maximum	Total incentive outcomes	% bonus payable
Customer services	Project Spring	20%	67%	13.3%
	Customer NPS on track			
	Non-contactor NPS on track			
Corporate challenges	"One Thames" organisation design	20%	60%	12.0%
	Company Monitoring Framework			
PR19	PR19 successful outcome	20%	25%	5.0%
Financial	Group EBITDA	20%	72%	14.4%
Personal*	Annual personal performance assessment	20%	75%	15.0%
Total payable				59.7%

* Personal: Brandon Rennett and Nick Fincham achieved 75% of their personal objectives.

Customer services: The new customer billing and service platform is on track to deliver benefits on time and is assessed at 100%. While NPS stretch targets had been delivered, a reduction of 50% was applied to these elements to reflect the current complaints and SIM performance.

Corporate challenges: The Company has been undertaking a re-organisation to enable the "One Thames" approach and deliver outstanding outcomes for our customers. The outcome is 60% to reflect the current position of this programme. In respect of the Company Monitoring Framework, after much hard work and commitment from the financial and regulatory teams, we were successfully promoted out of "Prescribed" status to "Targeted" by Ofwat.

PR19 preparation: The outcome was set at threshold (25%) to reflect the fact that Thames Water is in Significant Scrutiny.

Financial: Outturn of earnings before interest, tax, depreciation and amortisation (EBITDA) is 72% which is between stretch and target.

The payments under the Annual Management Bonus scheme will be made in July 2019 for Brandon Rennet (£448,005) and Nick Fincham (£345,675) which is 59.7% of maximum potential bonus. These payments will be paid at the same time as bonus payments for all other managers within the Company.

Transformation Incentive (2018–20)

The Transformation Incentive plan runs from 1 April 2018 to 31 March 2020 with the potential for a single payment which would be paid in July 2020. Under this scheme, no payments vest or accrue on any interim targets before 31 March 2020. Therefore, there are no payments due to Brandon Rennet and Nick Fincham this year. Both individuals are on track to receive a payment in 2019/20 but payments would only be made on delivering solid performance against the targets at the end of the performance period. The CEO is not eligible for payment under this scheme.

Long-Term Incentive Plan ("LTIP")

As reported in last year's Annual Report, the Remuneration Committee formally approved in 2018 the voiding of the 2016 LTIP scheme which was due to pay out in 2019. As a result, there will be no pay-outs for the LTIP relating to 2018/19. A new LTIP scheme for the performance period 2019/2020 is detailed on page 140.

Total pension entitlements (audited)

The Executive Directors are currently eligible to participate in the Company's defined contribution pension scheme, with the Company making contributions up to a maximum of 25% of base salary. No element of Annual Management Bonus, Transformation Incentive Scheme or LTIP is pensionable. Executive Directors may choose to receive a cash allowance in lieu of these pension contributions. For 2018/19, Steve Robertson, Brandon Rennet and Nick Fincham received only a cash allowance. None of the Executive Directors participate in either of the defined benefit pension schemes.

Executive pensions

Executive Director	Cash allowance in lieu of pension 2018/19	Cash allowance in lieu of pension 2017/18
Steve Robertson, CEO	£152,500	£135,000
Brandon Rennet, CFO	£90,625	£81,250
Nick Fincham, Strategy and Regulation Director	£71,869	£70,039
Total	**£314,994**	**£286,289**

The Remuneration Committee is currently reviewing the Company's approach to aligning pension allowances with the workforce in line with the 2018 UK Corporate Governance code and will detail how it proposes to comply in the 2019/20 annual report as required.

Scheme interests awarded in the year – CEO Incentive and Transformation Incentive

No payments vest or benefits accrue on interim targets before 31 March 2020 under the CEO or Transformation Incentive schemes. Details of the performance targets are set out on page 131.

Aggregate Directors' emoluments (audited)

	2018/19 £	2017/18 £
Salaries	1,259,978	1,200,156
Taxable benefits/allowances	114,437	40,075
Bonuses	793,680	807,144
Pension payments	314,994	286,289
NED fees	980,645	979,395
Total	**3,463,734**	**3,313,059**

Payments to past Directors (audited)

No payments were made to past Directors other than those payments made to Directors who resigned during the year and were no longer employed by the Company as at 31 March 2019.

For arrangements for Nick Fincham, who stepped down from the Board effective 31 March 2019, refer to page 135.

Directors' remuneration policy continued

CEO remuneration compared to employees

Percentage change in CEO remuneration compared to all employees

The figures below present the percentage change in CEO remuneration from 2017/18 to 2018/19, by comparison to all employees in the Company, showing remuneration on a like-for-like basis to the prior year.

Employee group	Base salary	Bonus	Taxable benefits
Change in CEO remuneration	0%	0%	0%
Change in employee remuneration	3.5%*	10.3%**	0%

* Includes promotional increase. The headline salary increase for employees was 2.65%.

** The number of employees eligible for bonus increased by 20% compared with 2017/18. All managers of the Company, excluding the CEO were eligible to participate in the Annual Management Bonus plan. For this reporting period (2018/19), the corporate element of the annual bonus was 10.3% less than for the period 2017/18. The corporate element in 2017/18 made up 100% of the bonus and 80% in 2018/19. Personal elements are determined by individual assessment and vary each year.

Ratio of CEO remuneration to average for workforce

As in 2017/18, we are once again voluntarily disclosing details on the pay ratio between the CEO and the wider Thames Water employee population. This is ahead of the reporting requirements which will come into effect for financial years starting 1 January 2019. We have decided to use the Department Of Business, Energy and Industrial Strategy (BEIS) methodology's Option A. This includes all remuneration elements such as overtime, long service awards and benefits.

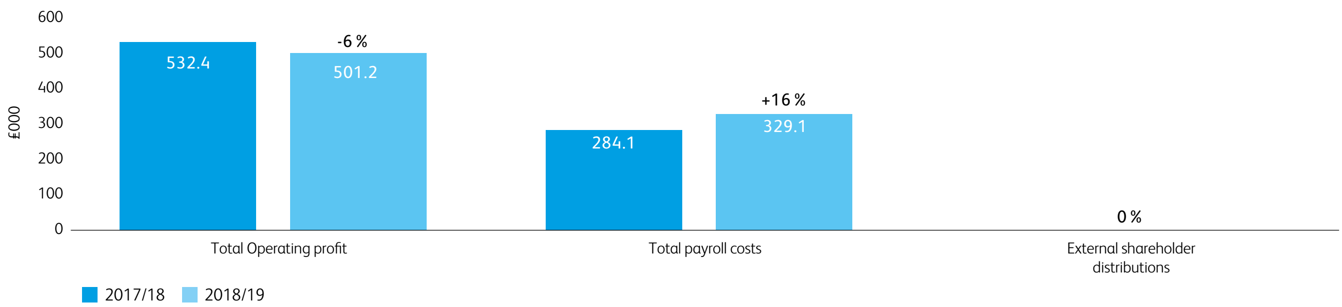
The table below provides the ratio between the CEO single figure total remuneration and the median, 25th and 75th percentile total remuneration of all Thames Water's full-time equivalent employees as at 31 March 2019. The CEO's pay ratio is low by comparison to other published CEO pay ratios. The median ratio is low by comparison to other published CEO pay ratios, largely due to the fact that any payment for Steve Robertson, under the CEO incentive is deferred until 2020.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	29:1	21:1	15:1

Notes:
Total remuneration reflects all remuneration including salary, benefits, employer pension contributions and incentives. Of the three alternatives available for calculating the ratio, we chose to use Option A as it is considered to be the most accurate way of identifying employees at P25, P50 and P75. Under this approach we calculate total remuneration on a full-time equivalent basis for all of our UK employees as at 31 March 2019 and rank them accordingly.

Relative importance of spend on pay

The following chart sets out the change in total operating profit, external shareholder distributions and overall spend on pay for the year ended 31 March 2019.



Shareholder distributions are those made to external shareholders of the Kemble Water Holdings Limited Group in respect of the relevant financial year. The Directors believe that this is the most relevant measure to use as a comparison. No distributions were made to external shareholders relating to 2018/19 (2017/18: £nil).

Directors' service contracts

The dates of the service contracts for the Executive Directors and their notice periods are set out below. There is no maximum or minimum service period for any of the Executive Directors.

	Contract start date	Notice period (by employee/Company)
Steve Robertson, CEO	01/09/2016	6 months/12 months
Brandon Rennet, CFO	13/03/2017	6 months/12 months
Nick Fincham, Strategy and Regulation Director	01/04/2016	6 months/12 months

Implementation of remuneration policy in 2019/20

To balance the need for an in-year incentive with the promotion of long-term success, the Committee designed targets so that those in the short-term annual bonus complement those in the long-term incentive.

Following robust discussions, the Committee set stretching targets to incentivise the delivery of excellent outcomes for our customers and other stakeholders and to meet regulatory requirements. Targets, for which 50% of the maximum incentive is payable, have been set to deliver our business plan which includes regulatory targets. For payments above this, we must deliver performance over and above our business plan.

During the year, the Committee robustly assesses performance and makes a determination on the outcomes considering each objective as well as overall performance. The Committee has the discretion to change the plan to reflect the Company's or individual performance. This includes the discretion to change, including reduce in part or in full, any payment for exceptional circumstances.

Annual Management Bonus 2019/20

In 2019/20, the Annual Management Bonus scheme will operate in a broadly similar way to the previous year with a continued focus on customer service and customer delivery. Resolving customer complaints is a key driver of delivering customer outcomes, one of our key strategic priorities. For Customer Delivery, the focus is on Sewer Flooding (SFOC) and Supply Interruptions (SI4). Both are key elements in achieving four stars in the Environment Agency's Environmental Performance Assessment (EPA). Details of the measures including the targets for Executive Directors are detailed below:

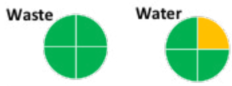
Bonus element	Objective measure	Element as % of total bonus	Target	Maximum
Customer service	Customer complaints	20%	15% reduction to 18,399 Wholesale – 9,697 Revenue – 8,702	40%
Customer delivery	Sewer flooding other causes (SFOC)	5%	1,065	10%
	Security of supply – supply interruptions (SI4)	5%	7.8 minutes	10%
PR19	Deliver successful PR19 outcome	20%	Acceptable outcome based on Board feedback	40%
Financial	Group EBITDA	30%	£1,018m	60%
Personal element	Annual personal performance assessment, including delivery of budgets, will determine the % applied	20%		40%
Total as a % of opportunity		**100%**	**100%**	**200%**

Directors' remuneration policy continued

Transformation Incentive

The Transformation Incentive plan was detailed in the 2017/18 report. It is awarded at the discretion of the CEO to other Executive Directors, the whole Executive team and invited senior managers. Brandon Rennet and Nick Fincham are eligible for a payment in July 2020. The CEO is not eligible for a payment under this incentive plan.

The targets of the Transformation Incentive as disclosed last year are summarised in the table below. Further details are provided in the Annual Report 2017/18.

Element	Measures	Element as % of total	Targets	Maximum payment	Stretch targets	Maximum payment
Leakage target	Ml/d	40.0 %	606 Ml/d	100 % of annual salary as at 31/03/20	576 Ml/d	200 % of annual salary as at 31/03/20
Customer	Contactor NPS	20.0 %	27		29	
Advocacy	Non-contactor NPS		-19		-17	
Asset health	Asset health measures	20.0 %				
Environmental Performance	Environmental performance assessment	20.0 %	3 stars and on track for 4 stars		4 stars	

LTIP 2019/20

The Remuneration Committee has undertaken detailed consideration of how a long-term incentive should operate in AMP7 to support the delivery of our business plan and critical customer and regulatory outcomes. The incentive recommended by the Committee and approved by the Board is a three-year LTIP scheme with a performance period from 1 April 2019 to 31 March 2020. All Executive Directors including the CEO and other invited executives and senior managers will be eligible to participate in the scheme. On target payment for the Executive Directors will be 100 % of salary with a maximum payment of 200 % for delivery of stretch targets.

The targets for the LTIP have been set to deliver critical elements of the Company's stretching business plan. 80 % of the targets are focused on delivery of key customer outcomes including the delivery of leakage and environmental targets. The targets for the Customer Service and Return on Regulated Equity (RORE) objectives will be set following the final determination of our plan by Ofwat but in both cases delivery of the business plan targets will result in a payment for that element of 50 % of maximum.

Element	Objective	Element as a % of total LTIP	Targets	On target payment	Stretch targets	Maximum payment
Customer service	Relative CMEX*	20 %	Business plan TBC	100 % salary	Business plan TBC	200 % salary
	Relationship NPS	20 %	-2 (15 improvement)		+6 (23 improvement)	
Customer delivery	Leakage Ml/d delivery**	20 %	614 Ml/d		604 Ml/d	
	Environmental performance assessment	20 %	3 stars and on track for 4 stars		4 stars	
Shareholder	Return on regulated equity (RORE)*	20 %	Business plan TBC		Business plan TBC	

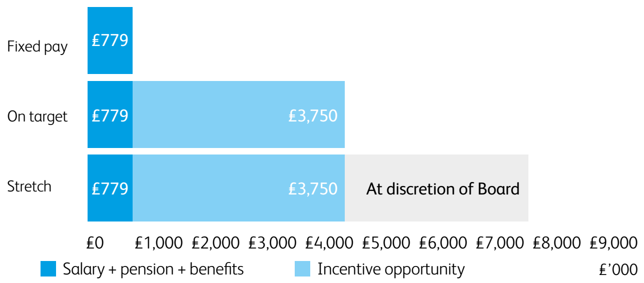
Notes:
* Specific CMEX and RORE targets in line with business plan and stretch targets above business plan will be confirmed later in 2019 following the outcome of the PR19 programme.
** Leakage target quoted is based on the AMP7 methodology.

Steve Robertson (CEO) – total remuneration opportunity

Steve Robertson's (CEO) total remuneration opportunity for 2019/20 was based on the same terms as 2018/19. There has been no increase in salary, pension and other benefits from the previous financial year. Under the rules of the CEO Incentive scheme the performance period is from 2016/17 to 2019/20 and all payments are deferred until 2020. Further details of all payments will be disclosed in the 2019/20 report.

The total remuneration that could result under different performance scenarios using the remuneration policy is shown in the chart below. The fixed pay represents the base salary plus the value of benefits and pension contributions at the start of 2019/20.

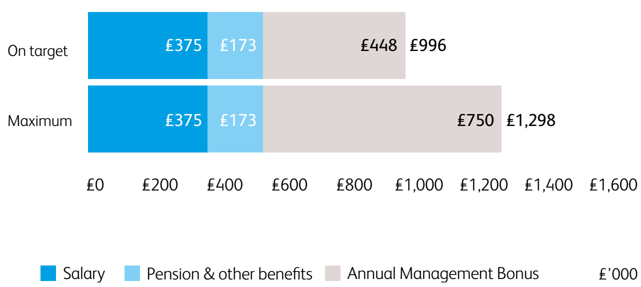
Steve Robertson (CEO) total remuneration opportunity 2019/20 under three performance scenarios



Brandon Rennet (CFO) total remuneration opportunity

Brandon Rennet (CFO) will be eligible to receive the payments outlined in the chart below in 2019/20. There have been no other percentage increases to pension and other benefits from the previous financial year.

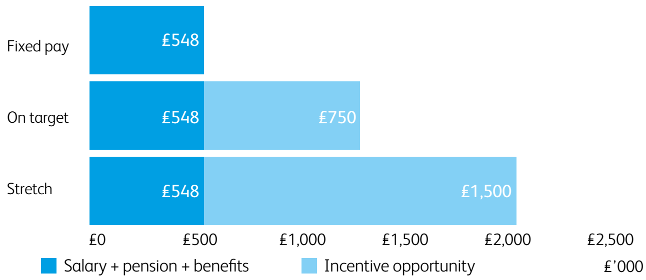
Brandon Rennet (CFO) total remuneration opportunity 2019 under three performance scenarios



Under the Transformation Incentive which is explained in the remuneration policy on page 131, there will be a one-off award at the end of the performance period ending 31 March 2020, which could potentially pay out in July 2020. No payments vest or accrue on any interim targets before 31 March 2020. No other long-term incentives will be awarded to Executive Directors in 2018/19 other those described above.

The chart below summarises the structure of the CFO's remuneration package for the period for 2019/20, under three performance scenarios showing the value and pay mix for each.

Brandon Rennet (CFO) total remuneration opportunity 2019/20 under three performance scenarios



- Salary for the full year is assumed to be at the 1 July 2019 level (£375,000) for 12 months
- For incentive opportunity:
  - Annual Management Bonus scheme:
    - Maximum performance results in the maximum Annual Management Bonus (200 % of salary)
    - Performance is also shown in the graph at 50 % of maximum which results in 50 % of maximum payment (100 % of salary)
  - Transformation incentive
    - Stretch performance results in the maximum payment (200 % of salary)
    - On-target performance results in 50 % of maximum payment (100 % of salary)

Directors' remuneration policy continued

Non-Executive Directors

NED annual fees (audited)

The Chairman and NEDs receive a fixed fee for their duties which reflects their responsibilities and time commitments. They are not entitled to any Annual Management Bonus, long-term incentives, pension benefits or benefits in kind.

Following a review of NED annual fees in early 2019, there are no changes to the fee rates for 2019/20:

	Total annual fees 01/07/2019	Total annual fees 01/07/2018	Percentage increase
Chairman	£325,000	£325,000	0%
Independent NED/NED (non-committee member)	£50,000	£50,000	0%
Independent NED/NED (committee member)	£60,000	£60,000	0%
Chair of the Customer Service Committee/Remuneration Committee/Health, Safety & Environment Committee/Regulatory Strategy Committee	£70,000	£70,000	0%
Chair of the Audit, Risk and Reporting Committee	£75,000	£75,000	0%

The base annual fee for Non-Executive Directors is £50,000. The fee for the Chair of the Customer Service Committee, Remuneration Committee, Health, Safety & Environment Committee or Regulatory Strategy Committee is the base Non-Executive Director fee plus an additional £10,000 in respect of services as a Committee member, plus an additional £10,000 in respect of services as the role of Chairperson.

The fee for the Chair of the Audit, Risk and Reporting Committee is the normal Non-Executive Director fee plus an additional £10,000 in respect of services as a Committee member, plus an additional £15,000 in respect of services as Chair of the Audit, Risk and Reporting Committee.

NED service agreements

The dates of the service contracts for the Non-Executive Directors are set out below.

The Chairman and Independent Non-Executive Directors have an agreement for service for an initial three-year period which can be terminated by either party with no notice period. Shareholder-appointed Non-Executive Directors are appointed with no fixed end date to their contract and are appointed and terminated without notice by the shareholders of the Company in line with the Shareholder Agreement.

	Initial contract start date	Expiry date of contract
Chairman:		
Ian Marchant	01/12/2017	30/11/2020
Independent Non-Executive Directors:		
Alistair Buchanan	01/07/2018	08/07/2021
Nick Land	01/02/2017	31/01/2020
Catherine Lynn	28/11/2018	27/11/2021
Ian Pearson	01/09/2014	31/08/2018
Jill Shedden	01/10/2018	30/09/2021
David Waboso	01/02/2019	31/01/2022
Lorraine Baldry (resigned 31 March 2019)	01/09/2014	31/08/2018
Dame Deirdre Hutton (resigned 31 January 2019)	22/07/2010	21/07/2018
Edward Richards (resigned 31 March 2019)	22/07/2010	21/07/2018
Non-Executive Directors:		
Kenton Bradbury	31/05/2017	n/a
Christopher Deacon	01/12/2006	n/a
John Morea	28/01/2019	n/a
Greg Pestrak	03/10/2017	n/a
Guy Lambert (resigned 28 January 2019)	15/10/2014	n/a

Notes
Details of resignations are within the Corporate Governance section.

The Remuneration Committee

Members and attendance

The Remuneration Committee is currently chaired by Jill Shedden and consists of two further Independent Non-Executive Directors and two Non-Executive Directors. They are appointed to the Committee on an ongoing basis. The following table sets out the attendance of the members of the Committee during the year.

Committee member	Number of meetings attended/eligible meetings
Ian Marchant*	4/4
Jill Shedden**	3/4
Kenton Bradbury	3/4
Christopher Deacon	3/4
Nick Land	4/4
Ian Pearson	4/4

* Ian was appointed interim Chair from January 2018 to 30 September 2018.
** Jill was appointed Chair from 1 October 2018.

The role of the Committee

The role of the Remuneration Committee is to make recommendations to the Board regarding the remuneration strategy and framework to ensure that the Executive Directors and senior management, including the Executive team, are appropriately rewarded for their contribution to the Company's performance. The Committee's activities cover a range of subjects along with Executive Director remuneration, including succession planning and people strategy. They are also responsible for recommending the structure of other aspects of remuneration for all employees, including setting a budget for employee pay reviews, reviewing the appropriateness and effectiveness of employee benefits including pensions and the structure of annual and long-term incentive arrangements for managers.

Committee activities during the year 2018/19

The Remuneration Committee met four times and below are the key remuneration activities for the year ended 31 March 2019:

- Review of performance against targets for the 2017/18 bonus
- Review of proposals for incentives 2018/19
- Review of Executive team pay
- Update on pension strategy
- Review of proposals for Executive incentives for AMP7
- Workforce Board engagement
- Review of incentives for senior critical roles
- Review of proposals for Executive bonus scheme proposals for AMP7
- Update on defined benefit pension strategy
- Update on defined contribution pension review
- Workforce engagement
- Pay review 2019
- Review of performance against targets for the 2018/19 bonus targets
- AMP6 incentives update
- Review and approval of pay review budget
- Review of proposals for CEO incentive 2020
- Review of proposals for incentives for AMP7 – executive leaders, LTIP
- Review of draft Remuneration Report
- Review of NED fees

This year's remuneration reporting has been prepared in accordance to the remuneration reporting regulations which came into effect on 1 October 2014, and is compliant with UK listing rules, as required by Ofwat as part of our operating licence. Note that the full Terms of Reference for the Committee can be found on the Company's website at www.thameswater.co.uk.

The Remuneration Committee report was approved by the Board on 27 June 2019, and signed on its behalf by:

Jill Shedden
Chair, Remuneration Committee

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 March 2019. Thames Water Utilities Limited (the Company) is a Company incorporated and domiciled in the United Kingdom. The financial statements are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures required under the Companies Act 2006.

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

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and details of these risks and their management or mitigation can be found on pages 38–44. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1–95. The Strategic Report includes details of the market overview; key growth drivers; business model; strategic objectives; principal risks and uncertainties; key performance indicators and a summary of the Company's performance during the year.

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

Directors

The current Directors of the Company, including their biographical details can be found on pages 100–103. Details of the Directors' remuneration, service contracts and any interest in the shares of the Company are included within the Remuneration Committee report on pages 128–143.

In May 2019, we announced Steve Robertson would step down as our Chief Executive and he resigned as Executive Director from the Board on the same date. A search for a new CEO is underway. Ian Marchant will act as Interim Executive Chairman, until the search has been concluded.

Other Board changes were as follows:

- Alistair Buchanan CBE was appointed as Independent Non-Executive Director on 9 July 2018;
- Jill Shedden MBE was appointed as Independent Non-Executive Director on 1 October 2018;
- Catherine Lynn was appointed as Independent Non-Executive Director on 28 November 2018;
- Dame Deirdre Hutton DBE resigned as Independent Non-Executive Director on 28 January 2019;
- Guy Lambert resigned as Non-Executive Director on 28 January 2019;
- John Morea was appointed as Non-Executive Director on 28 January 2019;
- David Waboso CBE was appointed as Independent Non-Executive Director on 1 February 2019;
- Lorraine Baldry OBE resigned as Independent Non-Executive Director on 28 March 2019;
- Ed Richards resigned as Independent Non-Executive Director on 28 March 2019; and
- Nick Fincham resigned as Executive Director on 31 March 2019.

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval, the Company has made qualifying third party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies and these remain in force at the date of this report.

Political donations

No political donations were made by the Company (2017/18: £nil).

Branches

The Company does not have any branches outside of the UK.

Share capital

As at 27 June 2019, the Company's issued share capital was 29,050,000 ordinary shares of £1 each amounting to £29,050,000. There were no movements in the Company's share capital during the year. Further details of the Company's share capital can be found in note 40.

Dividends

During AMP6, we have made substantial changes to our governance to reinforce the independence of TWUL, including strengthening the oversight of and governance around dividend payments. This has included the separation of the chairmanships of TWUL and its holding company with Independent Non-Executive Directors making up the largest group on the Board, reviewing the skillsets of the Directors to ensure there is sufficient breadth of operational experience to allow them to challenge effectively on all issues and refreshing the relationship between Kemble, our ultimate holding company, and TWUL by reviewing reserved matters to reinforce the appropriate degree of independence.

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

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financeability of the company's business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat's 5% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably be applied to finance a dividend.

The Company paid a total dividend of £60.0 million (2017/18: £55.0 million) during the financial year to its immediate parent company, Thames Water Utilities Holdings Limited. The dividends paid in the current financial year were utilised solely to service the debt obligations and working capital requirements of other companies in the Group. No distributions were ultimately paid to external shareholders during the year (2017/18: £nil).

Material financial instruments

Financial risk management and information on financial instruments is covered in note 18.

Research and development

The Company's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business.

The development and application of new techniques and technology is an important part of the Company's activities. The Company is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management. In addition, we carry out research and development in-house, including algae removal from raw water for increased resilience of supplies, deterioration of critical cast iron assets and low energy wastewater treatment processes.

Expenditure on research and development totalled £5.0 million for the year (2017/18: £3.9 million).

Intellectual property

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

Charitable fundraising

During the year, the Company raised £269,000 (2017/18: £316,675) for WaterAid, with a further £24,000 (2017/18: £46,344) of income pledged, which is being used to improve access to clean water for two towns in Malawi.

In addition, the Company raised a further £45,266 (2017/18: £38,174) for other local and national charities through internal fundraising activities. The Company match funded employee fundraising efforts with £31,820 (2017/18: £31,534). The Company supports the local community through volunteering events and contributions to community investment funds.

Employee involvement

We undertake significant levels of communication with our people, through regular business review conferences, team briefs and varied written communications. During the year, the Executive team has continued to develop the key messages around the new "One Thames" structure, values and strategic plan.

Thames Water recognises three trade unions, UNISON, GMB and Unite, working with them through an agreed Partnership approach. We regularly meet trade unions, and where appropriate non-union representatives, at senior and working levels, to discuss issues affecting employees. During the year, the Company has continued a significant consultation process with both trade union and pension scheme representatives, looking at how we can make our defined benefit pension schemes sustainable and avoid closure. In addition to formal consultation meetings, this included joint learning sessions on topics including scheme indexation, mortality rates and emerging pension options like Collective DC schemes. Specific groups also consider issues relating to Health, Safety and Wellbeing and undertake reviews of Company policies. The Partnership trade unions negotiate pay and conditions for non-managerial grades.

Incentives for all managers and senior leaders in the Company link reward to performance for customers and other key stakeholders. Most targets are based on regulatory outcomes including customer service, leakage, environmental and financial performance. The same targets are also used for an incentive for all non-managerial employees which will pay out in 2020.

The Company regularly shares key performance and other critical business information to employees through the various communications, including business reviews and written communications. In addition to a monthly "Team Talk" session which enables every team to discuss key customer, operational and financial performance, the CEO holds bi-annual "Yamjam" sessions, an opportunity for any employee to ask him questions directly, while the CEO and Executive team also attend conferences to hear key messages and ask direct questions of the lead team.

Each year we ask our employees to have their say through a Company wide engagement survey. We then use the results to develop a strategic improvement plan as well as encouraging teams to utilise a toolkit to turn their "voices into action" at a local level, sharing and celebrating successes. As a result of our ongoing engagement with our employees, we have seen a 12% increase in the past year in employees feeling that they have the opportunity to contribute their ideas if they want to.

Directors report continued

Equal opportunities, diversity and inclusion

We recognise that our people are at the heart of our business. To help us succeed in our aim to provide best in class water and sewerage services, to be efficient and sustainable and to act in the long-term interests of our wider community, we need a range of skills and capabilities, representative of society, throughout our business.

We seek to attract, develop, reward, promote and retain a mix of colleagues who can offer different but complementary attitudes, ideologies, talents and knowledge. We understand the importance of appreciating and harnessing the unique skills, experiences and backgrounds that each individual brings to our family.

To support an equal opportunity, fair, diverse and inclusive Thames Water free from discrimination, bullying, harassment or victimisation, we are committed to building a working environment and culture that inspires our people to live our values.

Everyone has a part to play to ensure people feel comfortable to bring their whole self to work. The attitude and behaviour of all our colleagues has a profound impact on our reputation and ability to ensure that everyone is provided with the same opportunities, treated with respect and valued, irrespective of their protected characteristic including: age, disability, gender identity, marriage or civil partnership, pregnancy or maternity, race, religion and belief, sex or sexual orientation.

Disability Confident at Thames Water

Thames Water is proud to be a Disability Confident Employer, an accolade we have been awarded as a result of our ongoing work to actively hire, support and develop persons with disabilities.

We were delighted to once again be asked to speak at the Stronger Together, Access to Work event, sharing best practice and initiatives we have developed such as our inclusion cards which include scenarios developed by our Disability Champions to explore and positively challenge attitudes and behaviours ensuring an inclusive culture. Additionally, we were asked by Alok Sharma, MP to speak at a local event in the Thames Valley to share with other employers how they can learn from us to become Disability Confident themselves.

We are fully committed to ensuring that existing or potential future employees with disabilities are not treated less favourably than any other such person without a disability and that they are fully integrated into the work environment. This includes supporting individuals with their personal requirements, and we currently have a programme of work to ensure our key buildings have disability friendly facilities.

Going concern

The Directors believe, after due and careful enquiry, that the Company has sufficient resources to meet its present obligations as they fall due and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2018/19 financial statements. In forming this assessment the Directors have considered the following information:

- The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1–95. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 22–27;
- Day-to-day working capital requirements are funded by the business cash flows and by utilising the revolving credit facility, as needed. During the year, £1.15 billion of new external debt (gross of issuance costs and including drawdowns from the revolving credit facility) was secured and £0.7 billion of debt repaid. There is no current requirement to raise additional finance to meet future project obligations. There are also cash balances and liquid resources of £159.6 million and undrawn committed facilities of £2,153.5 million;
- As at 31 March 2019, the undrawn committed facilities consist of a £189.0 million undrawn bilateral facility with Export Development Canada and a £227.3 million committed but undrawn financing raised by the Group in the Private Placement markets plus £1,737.1 million facilities with a group of commercial banks. This was made up of the £1,187.1 million undrawn portion of the £1,646.4 million revolving credit facility and £550.0 million of 364-day liquidity facilities due for renewal in August 2019. The liquidity facilities are not designed to be used in the ordinary course of business;
- The Company is in compliance with its financial covenant requirements as at 31 March 2019; and
- The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities and covenant restrictions for at least 12 months from the date of this report.

Funding

In November 2018, the Group signed an innovative £1,386.8 million 5-year revolving credit facility (subsequently increased in size to a total of £1,646.4 million in January 2019) with the interest rate linked to annual performance against environmental, social and governance (ESG) metrics.

The agreement saw the company become the first UK corporate to tie the interest rate it will pay on the RCF to its Infrastructure GRESB score (Global Real Estate Sustainability Benchmark). GRESB is an independent, external ESG benchmark which assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide.

In addition to the £227.3 million sterling-equivalent Private Placement which was priced in January 2019 and a new £189.0 million bilateral loan with Export Development Canada, which were both undrawn at 31 Match 2019, the Company signed a new £150.0 million facility with a commercial bank which was drawn down in full at 31 March 2019. The £227.3 million Private Placement, to be funded in April 2019, included two US Dollar traches of 5 and 7 years and an 11 year Euro tranche which together, once swapped to sterling, translated into a weighted average yield of 3.12%.

During the year, a total of £999.3 million was drawn down and £540.0 million was repaid from the Thames Water Utilities Finance plc, £1,646.4 million revolving credit facility in various tranches. The amounts were used for general corporate purpose and to pre-finance long-term debt.

Greenhouse gas emissions

We have continued to make progress throughout 2018/19 in reducing our emissions. Where we're not able to produce our own electricity, we source Renewable Energy Guarantees of Origin ("REGO") accredited sourcing renewable electricity through a contract with our green tariff electricity supplier. As a result we have achieved our 2018/19 emissions targets for both water and wastewater.

In the past year, we have reduced our emissions by 2.2 $ktCO_2e$ to 275.7$ktCO_2e$. We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department of Environment, Food and Rural Affairs (Defra). Operational Greenhouse Gas Emissions ("GHG") within the regulated business are calculated annually reflecting the six major greenhouse gases and the Defra Environmental Reporting Guidelines.

The emissions reported are associated with the operational emissions of the regulated business and include:

- Scope 1 (Direct emissions);
- Scope 2 (Indirect energy use emissions);
- Scope 3 (Emissions from outsourced services and business travel); and
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents (“CO_2e”).

Insurance

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

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

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Company and of the profit or loss of the group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and Company’s transactions and disclose with reasonable accuracy at any time the financial position of the group and Company and enable them to ensure that the financial statements and the Directors’ Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and Company’s position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Governance confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors’ Report is approved.

Disclosure of information to the auditor

In accordance with Section 418 of the Companies Act 2006, the directors who held office at the date of approval of this directors’ report confirm that, so far as they are each aware, there is no relevant audit information of which the Company’s auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

Independent auditor

Pursuant to section 487 of The Companies Act 2006, the auditor, PricewaterhouseCoopers LLP, will be deemed to be reappointed as the Company and wider Group’s external auditor.

The Directors’ Report and Strategic Report were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

David Hughes
Company Secretary
Thames Water Utilities Limited
Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB

Financial statements

In this section

Independent auditors' report to the members of Thames Water Utilities Limited

Report on the audit of the financial statements

Opinion

In our opinion, Thames Water Utilities Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Annual Performance Report 2018/19 (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2019; the consolidated income statement, the consolidated and company statement of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

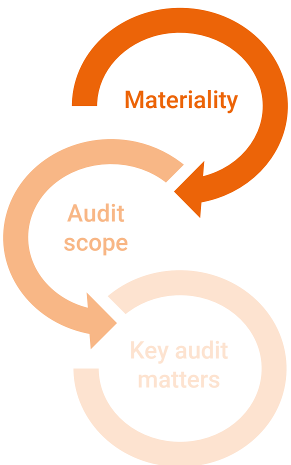
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

The terms of the company's license under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority (FCA).

Overview



- Overall group materiality: £30.0 million, based on 0.17% of total group assets.
- Overall company materiality: £28.5 million, based on 0.16% of total company assets.

- Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we subjected all components to a full scope audit, which provides sufficient coverage across all balances.

Our assessment of the risk of material misstatement also informed our views of the areas of particular focus of our work which are listed below:

- Provision for bad and doubtful accounts
- Classification of costs between capital and operating expenditure
- Valuation of financial derivatives
- Valuation of retirement benefit obligation

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Provision for bad and doubtful debts The recoverability of customer debts is always a key issue for water companies. The company uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £176.6m (2018: £174.3m). Management make key assumptions based on historical trends relating to non-payment of invoices including comparisons of the relative age of the individual balance and consideration of the actual write-off history. These historical trends are used as a basis to assess expected credit losses in the future These assumptions are then used in a complex model to compute the provision for bad and doubtful debt, which is sensitive to changes in these assumptions. Refer to page 119 of the Audit, Risk and Reporting Committee report and note 14 of the financial statements. This risk is applicable to both the group and company	We evaluated the model used to calculate the provision and confirmed its consistency with prior years and the appropriateness of this given the transition to IFRS 9. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We re-performed the calculations used in the model and ensured appropriateness and accuracy of these calculations. We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to ensure appropriateness of the aging classifications used in the model. We also assessed the impact of changes to the provision methodology on account on adoption of IFRS 9. We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for bad and doubtful debts and the description of changes arising as a result of the adoption of IFRS 9. Overall we consider that the provision and disclosure for bad and doubtful debt is reasonable as at 31 March 2019.
Classification of costs between capital and operating expenditure Additions to Assets under construction (AUC) during the period amounted to £1.098bn (2018: £1.073bn). Within this is £189.4m (2018: £198.2m) of own works capitalised and £102.7m (2018: £96.4m) of borrowing costs incurred with the remainder being external costs incurred. There is a high degree of judgement applied when allocating costs to operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects 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 costs capitalised do not meet these criteria. Refer to page 119 of the Audit, Risk and Reporting Committee report and note 11 of the financial statements. This risk is applicable to both the group and company	Our procedures over external costs included: We have tested the controls regarding the assessment by management of each project as being either operating or capital in nature. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements. We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately. Our procedures over own works capitalised included: We tested the control process over the assessment and review by management over the support internal cost functions are providing with regards to capital programmes. We have challenged management as to the nature of these costs and whether they meet the capitalisation criteria. We have obtained management's papers and considered the assessment made and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias. Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2019.

Independent auditors' report to the members of Thames Water Utilities Limited continued

Key audit matter	How our audit addressed the key audit matter
Valuation of financial derivatives The net derivative liability position at 31 March 2019 was £1,100m (2018: £1,153m). The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities. Refer to page 119 of the Audit, Risk and Reporting Committee report and note 18 of the financial statements. This risk is applicable to both the group and company	Our procedures included: Obtaining independent confirmations from the external counterparties to confirm the existence and terms of all contracts held. Engaged with our specialist valuations team who have performed independent valuations for a sample of the derivative population (testing 33 of the 64 derivative contracts with a total fair value tested of £1,014m). Performed an analytical review of the derivative position by calculating expected movements in derivatives using independent sources of exchange rates and interest rates. Tested management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we concur that the valuation method and judgements management have used are reasonable.
Valuation of retirement benefit obligation Valuation of total scheme liabilities £2,606.4m (2018: £2,498.7m) The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability. The pension liability and disclosures are also an area of interest to key stakeholders; this is especially so in the current year in light of the impact of the High Court Lloyds ruling regarding Guaranteed Minimum Pensions (GMPs). Refer to page 119 of the Audit, Risk and Reporting Committee report and note 22 of the financial statements. This risk is applicable to both the group and company	Our procedures included: We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities, as well as assessing the liability impact calculated by the pension scheme actuaries in relation to GMP. We benchmarked the various assumptions used (e.g. discount and inflation rate) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end and the most recent actuarial valuation. We tested the accuracy of the retirement benefit obligation disclosures, including GMP, made in relation to the group's pensions policy. We confirmed that the group's actuarial experts (Hymans Robertson LLP and Aon) are qualified, appropriately affiliated to territory industry bodies, and are independent of the company and group. Overall, we concur that the methodology and assumptions used by management at 31 March 2019 are reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. The group consists of 2 legal entities, Thames Water Utilities Limited and Thames Water Utilities Finance Plc. All of the group's reporting components were subject to full scope audits for group purposes.

In order to achieve audit coverage over the financial statements, under our audit methodology, we test both the design and operation of relevant business process controls and perform substantive testing over material financial statement line items. Our audit was scoped to cover 100% of the revenue, profit before tax and total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£30.0 million.	£28.5 million.
How we determined it	0.17% of total group assets.	0.16% of total company assets.
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group (see company rationale), therefore group materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks, using the lower percentage of 0.17% of total group assets was deemed to be most appropriate.	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, and generates revenues and profits almost entirely through using its infrastructure assets. Therefore although the Company is a trading entity, given its revenue and profits to a certain extent are regulated by Ofwat, we assess that the key focus is on the infrastructure and therefore the asset base. For Non-PIE entities a percentage of up to 2% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks, using the lower percentage of 0.16% of total company assets was deemed to be most appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £25.5 million and £28.5 million.

We agreed with the Audit, Risk and Reporting Committee that we would report to them misstatements identified during our audit above £1.5 million (group audit) and £1.4 million (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon and the annual performance report. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Independent auditors' report to the members of Thames Water Utilities Limited continued

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 146 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 45 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 121, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 116–121 describing the work of the Audit, Risk and Reporting Committee does not appropriately address matters communicated by us to the Audit, Risk and Reporting Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 147, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 146 in relation to going concern as if the company were a premium listed company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

The directors have requested that we perform a review of the directors' statements on pages 146 and 45 that they have carried out a robust assessment of the principal risks facing the group and in relation to the longer-term viability of the group, as if the company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 June 2019

Consolidated income statement
For the year ended 31 March

		2019			Restated[1] 2018		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue	2	**2,036.9**	**47.5**	**2,084.4**	2,018.0	26.9	2,044.9
Operating expenses	3	**(1,654.7)**	**(0.3)**	**(1,655.0)**	(1,594.2)	(0.4)	(1,594.6)
Other operating income	2	**71.8**	**–**	**71.8**	82.1	–	82.1
Operating profit		**454.0**	**47.2**	**501.2**	505.9	26.5	532.4
Profit on the sale of retail non-household business	5	**–**	**–**	**–**	89.7	–	89.7
Finance income	6	**42.1**	**–**	**42.1**	27.0	–	27.0
Finance expense	6	**(406.8)**	**–**	**(406.8)**	(436.4)	–	(436.4)
Net (losses)/gains on financial instruments	7	**(37.7)**	**–**	**(37.7)**	40.9	–	40.9
Profit on ordinary activities before taxation		**51.6**	**47.2**	**98.8**	227.1	26.5	253.6
Tax charge on profit on ordinary activities	8	**(6.1)**	**(2.8)**	**(8.9)**	(33.2)	(1.6)	(34.8)
Profit for the year		**45.5**	**44.4**	**89.9**	193.9	24.9	218.8

The Group activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 161.

The accounting policies and notes on pages 161–219 are an integral part of these consolidated financial statements.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

Consolidated statement of other comprehensive income

For the year ended 31 March

		2019			Restated[1] 2018		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Profit for the year		45.5	44.4	89.9	193.9	24.9	218.8
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial (losses)/gains on pension schemes	22	(23.4)	–	(23.4)	87.0	–	87.0
Deferred tax credit/(charge) on net actuarial gain/loss	19	4.3	–	4.3	(17.1)	–	(17.1)
May be reclassified to the income statement:							
(Losses)/gains on cash flow hedges	18	(8.9)	–	(8.9)	16.3	–	16.3
Cash flow hedge transferred to income statement	7	34.2	–	34.2	84.3	–	84.3
Deferred tax charge on cash flow hedge gains	19	(4.3)	–	(4.3)	(17.1)	–	(17.1)
Other comprehensive income for the year		1.9	–	1.9	153.4	–	153.4
Total comprehensive income for the year		47.4	44.4	91.8	347.3	24.9	372.2

The accounting policies and notes on pages 161–219 are an integral part of these consolidated financial statements.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 161.

1 The restatement in the statement of other comprehensive income relates to the change in accounting policy for the TWMIPS pension scheme surplus as discussed on pages 175–177.

Consolidated statement of financial position
As at

		31 March 2019			Restated[1] 31 March 2018			Restated[1] 1 April 2017		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Non-current assets										
Intangible assets	10	217.8	–	217.8	168.8	–	168.8	140.3	–	140.3
Property, plant and equipment	11	15,259.9	–	15,259.9	14,675.3	–	14,675.3	14,094.5	–	14,094.5
Derivative financial assets	18	162.3	–	162.3	76.4	–	76.4	170.6	–	170.6
Intercompany loans receivable	12	1,974.7	–	1,974.7	1,974.7	–	1,974.7	1,974.7	–	1,974.7
Other receivables	14	39.3	101.9	141.2	39.4	56.7	96.1	41.8	30.4	72.2
Pension asset	22	45.8	–	45.8	50.6	–	50.6	21.7	–	21.7
		17,699.8	101.9	17,801.7	16,985.2	56.7	17,041.9	16,443.6	30.4	16,474.0
Current assets										
Inventories and current intangible assets	13	13.5	–	13.5	18.1	–	18.1	21.7	–	21.7
Assets held for sale		–	–	–	–	–	–	1.0	–	1.0
Intercompany loans receivable	12	27.3	–	27.3	3.2	–	3.2	7.2	–	7.2
Contract assets	14	217.0	0.9	217.9	185.8	0.4	186.2	214.7	0.4	215.1
Trade and other receivables	14	341.7	8.5	350.2	354.4	5.0	359.4	348.0	2.6	350.6
Derivative financial assets	18	–	–	–	8.5	–	8.5	–	–	–
Short-term investments		–	–	–	–	–	–	1.0	–	1.0
Cash and cash equivalents	15	154.4	7.6	162.0	104.4	2.6	107.0	52.7	3.8	56.5
		753.9	17.0	770.9	674.4	8.0	682.4	646.3	6.8	653.1
Current liabilities										
Contract liabilities	16	(110.6)	(3.4)	(114.0)	(125.3)	(4.1)	(129.4)	(125.3)	(0.2)	(125.5)
Trade and other payables	16	(678.9)	(15.5)	(694.4)	(613.1)	(5.1)	(618.2)	(730.5)	(6.4)	(736.9)
Borrowings	17	(1,124.1)	–	(1,124.1)	(266.3)	–	(266.3)	(342.3)	–	(342.3)
Derivative financial liabilities	18	(38.6)	–	(38.6)	(12.3)	–	(12.3)	(23.8)	–	(23.8)
		(1,952.2)	(18.9)	(1,971.1)	(1,017.0)	(9.2)	(1,026.2)	(1,221.9)	(6.6)	(1,228.5)
Net current (liabilities)/assets		(1,198.3)	(1.9)	(1,200.2)	(342.6)	(1.2)	(343.8)	(575.6)	0.2	(575.4)
Non-current liabilities										
Contract liabilities	16	(636.1)	–	(636.1)	(589.9)	–	(589.9)	(536.1)	–	(536.1)
Borrowings	17	(10,657.7)	–	(10,657.7)	(10,822.2)	–	(10,822.2)	(10,209.4)	–	(10,209.4)
Derivative financial liabilities	18	(1,223.8)	–	(1,223.8)	(1,225.9)	–	(1,225.9)	(1,398.0)	–	(1,398.0)
Deferred tax	19	(849.0)	–	(849.0)	(848.9)	–	(848.9)	(784.8)	–	(784.8)
Provisions for liabilities and charges	20	(109.0)	–	(109.0)	(133.1)	–	(133.1)	(145.4)	–	(145.4)
Pension deficit	22	(338.8)	–	(338.8)	(300.8)	–	(300.8)	(364.8)	–	(364.8)
		(13,814.4)	–	(13,814.4)	(13,920.8)	–	(13,920.8)	(13,438.5)	–	(13,438.5)
Net assets		2,687.1	100.0	2,787.1	2,721.8	55.5	2,777.3	2,429.5	30.6	2,460.1
Equity										
Called up share capital	21	29.0	–	29.0	29.0	–	29.0	29.0	–	29.0
Share premium	21	100.0	–	100.0	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	21	(117.9)	–	(117.9)	(138.9)	–	(138.9)	(222.4)	–	(222.4)
Revaluation reserve	21	989.3	–	989.3	1,021.2	–	1,021.2	1,053.1	–	1,053.1
Retained earnings	21	1,686.7	100.0	1,786.7	1,710.5	55.5	1,766.0	1,469.8	30.6	1,500.4
Total equity		2,687.1	100.0	2,787.1	2,721.8	55.5	2,777.3	2,429.5	30.6	2,460.1

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 161.

The accounting policies and notes on pages 161–219 are an integral part of these consolidated financial statements.

The consolidated financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

Brandon Rennet
Chief Financial Officer

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

Consolidated statement of changes in equity
As at

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
1 April 2017	**29.0**	**100.0**	**(222.4)**	**1,053.1**	**1,576.6**	**2,536.3**
Restatement for IFRS 15[1]	–	–	–	–	(100.0)	(100.0)
Recognition of TWMIPS surplus[1]	–	–	–	–	36.7	36.7
Deferred tax on recognition of TWMIPS surplus[1]	–	–	–	–	(12.9)	(12.9)
Restated 1 April 2017	**29.0**	**100.0**	**(222.4)**	**1,053.1**	**1,500.4**	**2,460.1**
Profit for the period	–	–	–	–	218.8	218.8
Gain on cash flow hedge	–	–	16.3	–	–	16.3
Cash flow hedges transferred to income statement	–	–	84.3	–	–	84.3
Deferred tax charge on cash flow hedge gain	–	–	(17.1)	–	–	(17.1)
Actuarial gain on pension scheme[1]	–	–	–	–	87.0	87.0
Deferred tax charge on actuarial gain[1]	–	–	–	–	(17.1)	(17.1)
Total comprehensive income	**–**	**–**	**83.5**	**–**	**288.7**	**372.2**
Transfer of depreciation[2]	–	–	–	(38.4)	38.4	–
Deferred tax on depreciation transfer[2]	–	–	–	6.5	(6.5)	–
Dividends paid[3]	–	–	–	–	(55.0)	(55.0)
Restated 31 March 2018	**29.0**	**100.0**	**(138.9)**	**1,021.2**	**1,766.0**	**2,777.3**
Transition to IFRS 9[4]	–	–	–	–	(26.5)	(26.5)
Deferred tax on IFRS 9 transition[4]	–	–	–	–	4.5	4.5
1 April 2018	**29.0**	**100.0**	**(138.9)**	**1,021.2**	**1,744.0**	**2,755.3**
Profit for the period	–	–	–	–	89.9	89.9
Loss on cash flow hedge	–	–	(8.9)	–	–	(8.9)
Cash flow hedge transfer to the income statement	–	–	34.2	–	–	34.2
Deferred tax charge on cash flow hedge	–	–	(4.3)	–	–	(4.3)
Actuarial loss on pension scheme	–	–	–	–	(23.4)	(23.4)
Deferred tax credit on actuarial loss	–	–	–	–	4.3	4.3
Total comprehensive income	**–**	**–**	**21.0**	**–**	**70.8**	**91.8**
Transfer of depreciation[2]	–	–	–	(38.4)	38.4	–
Deferred tax on depreciation transfer[2]	–	–	–	6.5	(6.5)	–
Dividends paid[3]	–	–	–	–	(60.0)	(60.0)
31 March 2019	**29.0**	**100.0**	**(117.9)**	**989.3**	**1,786.7**	**2,787.1**

The accounting policies and notes on pages 161–219 are an integral part of these consolidated financial statements.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.
2 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax in the fair value uplift on assets.
3 Refer to Note 9 for information on dividends paid.
4 An adjustment was made for the impact of the transition to new accounting standard IFRS 9 "Financial Instruments: Recognition and Measurement" on 1 April 2018 as discussed on page 174.

Consolidated statement of cash flows
For the year ended 31 March

	2019			Restated[1] 2018		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Net cash generated by operating activities[2]	**1,085.7**	**5.0**	**1,090.7**	1,065.1	(1.2)	1,063.9
Investing activities:						
Decrease in current asset investments	–	–	–	1.0	–	1.0
Purchase of property, plant and equipment[3]	**(1,117.8)**	–	**(1,117.8)**	(1,101.4)	–	(1,101.4)
Purchase of intangible assets	**(71.2)**	–	**(71.2)**	(61.8)	–	(61.8)
Proceeds from sale of property, plant and equipment	**2.6**	–	**2.6**	18.8	–	18.8
Interest received	**10.1**	–	**10.1**	21.3	–	21.3
Net cash used in investing activities	**(1,176.3)**	–	**(1,176.3)**	(1,122.1)	–	(1,122.1)
Financing activities:						
New loans raised	**1,148.8**	–	**1,148.8**	2,238.2	–	2,238.2
Repayment of borrowings	**(669.5)**	–	**(669.5)**	(1,799.8)	–	(1,799.8)
Derivative paydown	**2.8**	–	**2.8**	(28.4)	–	(28.4)
Interest paid[3]	**(273.8)**	–	**(273.8)**	(246.3)	–	(246.3)
Fees paid	**(7.7)**	–	**(7.7)**	–	–	–
Dividends paid	**(60.0)**	–	**(60.0)**	(55.0)	–	(55.0)
Net cash generated by financing activities	**140.6**	–	**140.6**	108.7	–	108.7
Net increase/(decrease) in cash and cash equivalents	**50.0**	**5.0**	**55.0**	51.7	(1.2)	50.5
Net cash and cash equivalents at beginning of period	**104.4**	**2.6**	**107.0**	52.7	3.8	56.5
Net cash and cash equivalents at end of period	**154.4**	**7.6**	**162.0**	104.4	2.6	107.0

No additions to property, plant and equipment during the period, or the immediately preceding period, were financed through new finance leases.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 161.

The accounting policies and notes on pages 161–219 are an integral part of these consolidated financial statements.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.
2 Refer to Note 28 "Statement of Cash Flows" on page 213 for a reconciliation of net cash generated by operating activities.
3 Borrowing costs that have been capitalised are included within "Purchase of property, plant and equipment" under investing activities.

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and Company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

Thames Water Utilities Limited ("the Company") is a private limited company incorporated in England and Wales and domiciled in the United Kingdom under the Companies Act 2006. The trading address and address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Company's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers in London, the Thames Valley and surrounding area in accordance with its licence of appointment. The Company is also an intermediate holding company within the Kemble Water Holdings Limited Group of companies ("the Kemble Water Holdings Group").

During 2017/18, the Company announced its decision to close down its Cayman Islands Subsidiaries, Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH"). The companies transferred the assets and liabilities to TWUF on 31 August 2018 as a result of the above decision. The Cayman Islands entities ceased to be subsidiaries of the Company on 27 September 2018. They were formally dissolved on 28 February 2019 and are no longer companies that exist within the Kemble Water Holdings Group.

As at 31 March 2019, the Group includes the Company and Thames Water Utilities Finance Plc ("TWUF") as the sole subsidiary.

Statement of compliance with International Financial Reporting Standards

These are the first set of consolidated financial statements of the Group which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The policies applied in these consolidated financial statements are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRS IC") interpretations issued and effective and ratified by the EU as of 27 June 2019, the date that the Board of Directors approved these financial statements. The Company only accounts are also prepared under IFRS.

Basis of preparation

The consolidated financial statements for the year ended 31 March 2019, set out on pages 156–159, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

Basis of consolidation

In previous years, the Company had exercised the exemption under section 400 of the Companies Act 2006 from the requirement to prepare Group financial statements as the Company and its subsidiaries were included within the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, an entity registered in the United Kingdom.

The Company has elected to prepare consolidated financial statements going forward, as in the view of the Directors it provides interested parties with a complete overview of the operating company and the finances in place to support its operations and enhances the understanding of the results of operations, financing and financial position in one place.

Refer to the "General information" section above for information on the Group.

Bazalgette Tunnel Limited ("BTL") arrangement

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and disclosed our underlying performance separately, in line with our financial covenants.

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the "pay when paid" principle.

Accounting standards require the Group to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable. This non-appointed revenue, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement are disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement with no cash retained, a prepayment is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Revenue recognition

The core principle of IFRS 15 "Revenue from Contracts with Customers" requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer.

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable based on historical experience, is excluded from revenue to ensure revenue is recorded at the amount which the Group expects to receive, for providing its services to customers.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions.

For unmeasured 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 contract liabilities (deferred income) and is apportioned to revenue over the period to which the bill relates.

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

Revenue includes amounts that the Group billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the BTL arrangement section above.

Refer to page 169 for the impact of new accounting standards on revenue, page 178 for critical estimates and page 178 for significant judgments around revenue.

Interest income

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 consolidated income statement.

Accounting policies continued

Interest expense

Interest expense 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 expense is presented within finance expense in the consolidated income statement.

Contract assets

Contract assets are presented in the statement of financial position when the Group's right to consideration is conditional on future performance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the "Trade and other receivables" below for more information.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Net (losses)/gains on financial instruments

The group raises debt in a variety of currencies and use derivative contracts to manage the foreign exchange risk exposure on this debt. The group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings 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 as net losses/gains on financial instruments. The following are also recognised in the income statement as net losses/gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve

Net (losses)/gains on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 170 for more details.

Taxation

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

Current tax

Current tax is the expected tax payable or receivable on the taxable profit 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 as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

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. 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.

Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management uses its experience, and seeks professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome.

Non-current intangible assets

Separately acquired intangible assets are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5–10

Assets under development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Property, plant and equipment

Property, plant and equipment ("PP&E") comprises network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). 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 Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Where items of PP&E are transferred to the Group 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 other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

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 until they are commissioned. The estimated useful economic lives are as follows and refer to non-current assets disclosed in note 11:

	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

Leased assets

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 "Leases" which becomes effective for the Group on 1 April 2019. 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 BTL prepayment (refer to BTL arrangement section on page 161) plus the present value of the future minimum lease payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group'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 recoverable amount of the asset is estimated, which 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 generate 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, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Impairment reviews are performed on an annual basis.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

IAS 39 (applicable for comparative periods 1 April 2017 and 31 March 2018)

Trade and other receivables (excluding prepayments) are measured at fair value on initial recognition and subsequently 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 the bills relate to services provided by the Company, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Company. As detailed information about the debt, including the ageing, is not readily available, the level of provision is calculated with reference to the level of historical, current and forecast write-offs.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

IFRS 9 (applicable for the year ended 31 March 2019)

Trade and other receivables (excluding prepayments) are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has "no reasonable expectations of recovering" a financial asset. Write-offs can relate to a financial asset in its entirety or to a portion of it, and is recognised as an expense within operating costs.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and intercompany loans receivable. The Group's assessment for calculating expected credit losses is made by reference to its historical collection experience, including comparisons of the relative age of the individual balance and the 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.

There are 3 main types of customer for which an expected credit losses provision is calculated, directly billed customers, indirectly billed and billed through WoCs (Water Only Companies). There is also bad debt associated to the BTL arrangement.

Accounting policies continued

An expected credit losses model is used to calculate the provision for directly and indirectly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on performance in the year. The amount that remains will be uncollectable and therefore needs to be covered by an expected credit losses provision. Debt that is older than 4 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling.

A provision is also made against debts due from WOCs who bill their customers for sewerage services provided by the Group. As the bills relate to services provided by the Group, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Group. As detailed information about the debt, including the ageing, is not readily available, the level of provision is therefore based on write offs covering a three year period – prior year, current year and forecast for the year ahead.

The arrangement with BTL means the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognizing revenue within the Group and associated bad debt. Refer to page 161 for more information on the BTL arrangement.

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Interest bearing borrowings including those issued to other Group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

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 a new financial liability, with any costs or fees incurred recognised as part of the gain or loss on the extinguishment. In the case of exchange or modification of interest bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Inventories and current intangible assets

Inventories are stated at the lower of cost and net realisable value (“NRV”).

Current intangible assets relate to purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) and are stated at cost, less accumulated amortisation 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.

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services.

Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use. For more information on the BTL arrangement, refer to page 161.

Retirement and other employment benefits

Defined benefit schemes

The Group 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, 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 surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 “The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

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)/surplus.

Changes in the retirement benefit surplus or 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 remeasurements 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 Group operates a Defined Contribution Pension Scheme (“DCPS”) managed through Standard Life Assurance Limited. From 1 April 2011 the DCPS is the only scheme to which new employees of the Group are eligible. The assets of the DCPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates a closed defined contribution pension scheme. The Group has no further payment obligations; however, defined funds for some former employees are held within this scheme.

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. Where the Company's performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

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.

Share in Your Success 2020 was introduced in the 2017/18 financial year. The scheme's performance period runs from April 2017 to March 2020 and is open to all non-manager grade employees. The scheme entitles eligible employees to earn an amount of up to 5% of their salary following the end of the performance period.

Provisions for liabilities and charges

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from captive and third party insurance companies net of retentions. The timing for the insurance claims are uncertain and therefore both the liability and receivable have been recognised as non-current.

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.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2015 to 31 March 2020 is known as AMP6, and the period for which we have recently submitted our plan 1 April 2020 to 31 March 2025 is known as AMP7.

Outcome delivery incentives ("ODIs") were introduced by Ofwat in the price determination process covering AMP6. The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

ODIs introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

There is no financial reward or penalty in the rate setting period in which the ODI is incurred, and accordingly there is no accounting required. Instead, the reward or penalty is reflected in the following AMP period by way of increased or reduced revenues respectively.

Refer to "Outcome performance table" in the Annual Performance Report on pages 276–278 for the summary of rewards and penalties incurred in AMP6.

Risks, opportunities and innovation ("ROI") funds

The Group 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 are also linked to TWUL's performance commitments. During the year ended 31 March 2019, there were three alliances responsible for delivering works over AMP6 (2018: three).

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

A provision for ROI amounts is recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Conversely, a receivable for ROI will be recognised when: the Group 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 operating expenses as the spend is incurred.

ROI amounts linked to an ODI or Service Incentive Mechanism ("SIM") penalty or reward are recognised in the income statement at the point the penalty has been incurred or reward has been achieved.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 18.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on remeasurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

Derivative financial instruments not designated as hedging instruments.

The Group uses derivative financial instruments, such as forward starting interest rate swaps to hedge its interest rate risks. At the inception of each hedge relationship the Group 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 economic relationship between the hedge item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The group uses hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

Accounting policies continued

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Group 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 host 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 host 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.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently and in all circumstances an 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 Group is part of a Whole Business Securitisation ("WBS") group as described in note 18. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's 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.

Summary of prior year restatements

A number of restatements to the comparative periods have been made, including those from the adopting the new accounting standard IFRS 15 Revenue from Contracts with Customers. In addition, new accounting standard IFRS 9 "Financial Instruments" has been applied sing a modified retrospective approach and as such there have been no restatements to the prior year.

IFRS 15: Revenue from Contracts with Customers

Background

The Group and Company have adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group and Company have restated both comparative periods presented in the financial statements which include 1 April 2017 and 31 March 2018.

Restatements to the prior year

The Group and Company now recognise infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective restatement made to trade and other payables, deferred tax and retained earnings.

The restatement has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years. Refer to the "Transition to new IFRSs" section on page 170 for more information on the prior year restatements made following the transition to IFRS 15.

Presentation of interest on derivatives

Background

The interest on swaps has been historically presented gross in the income statement and statement of cash flows, referenced in the restatements section below. For purposes of the year ended 31 March 2019, it was considered more appropriate to present any interest incurred or received for the same instrument on a net rather than gross basis, in line with IFRS.

Restatements to the prior year

Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018.

This restatement to the prior year impacts the following Group disclosures:

- Consolidated income statement on page 156
- Note 1 Segmental analysis on page 181
- Note 6 Finance income and finance expense on page 187
- Note 28 Statement of cash flows on page 213
- Note 31 Restatements to the prior year on page 215

This restatement to the prior year impacts the following Company disclosures:

- Note 43 Statement of cash flows on page 241
- Note 46 Restatements to the prior year on page 243

Recognition of TWMIPS surplus

Background

In recent years, the defined benefit pension scheme TWMIPS has been in a surplus position. The Directors had previously reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised.

Restatements to the prior year

Following a review of our approach, the Directors have concluded that a different interpretation of IFRIC 14 provides a truer, fairer picture of our pension scheme arrangements for our stakeholders. The Group and Company now recognise any surplus from the TWMIPS scheme. The comparative periods have been restated to reflect this change in accounting policy. Refer to "Change in accounting policies" section on page 175 for more information on the change in accounting policy and the prior year restatements.

This restatement to the prior year impacts the following Group disclosures:

- Consolidated statement of financial position on page 158
- Consolidated statement of comprehensive income on page 157
- Note 22 Retirement benefit obligations on page 207
- Note 31 Restatements to the prior year on page 215

This restatement to the prior year impacts the following Company disclosures:

- Company statement of financial position on page 221
- Company statement of comprehensive income on page 220
- Note 22 Retirement benefit obligations on page 207
- Note 46 Restatements to the prior year on page 243

Payments in advance from metered customers

Background

Payments in advance from metered customers have historically been included within trade payables. Following a review into the classification of these amounts, payments in advance from metered customers have been reclassified to other payables on the basis that the liability recognised is not in respect of amounts due to suppliers of the Group or Company.

Restatements to the prior year

The reclassification from trade payables to other payables in the prior years are as follows:

Comparative period	£m
1 April 2017	57.9
31 March 2018	40.3

This restatement to the prior year impacts the following Group disclosures:

- Consolidated statement of financial position on page 158
- Note 16 Trade and other payables on page 194
- Note 31 Restatements to the prior year on page 215

This restatement to the prior year impacts the following Company disclosures:

- Company statement of financial position on page 221
- Note 36 Trade and other payables on page 227
- Note 46 Restatements to the prior year on page 243

Summary of prior year restatements continued

Credits against MSA

Background

The metered sales accrual recognises revenue from metered customers for whom meter reads have not been taken at the reporting date, and therefore no bill has been raised. Some metered customers make regular payments by direct debit. Where a bill has not been raised, their account will be in credit. Historically, all customer accounts that are in a net credit position have been reclassified to payables; however, following a review, we have identified that these direct debit payments should be offset against the associated amounts due from those customers.

Restatements to the prior year

The credits arising on customer accounts that relate to direct debit payments where an invoice has not been raised have been reclassified and offset against the metered sales accrual. This has resulted in a reduction in contract assets and trade payables by the following:

Comparative period	£m
1 April 2017	32.7
31 March 2018	39.7

This restatement to the prior year impacts the following Group disclosures:

- Consolidated statement of financial position on page 158
- Note 14 Trade and other receivables on page 192
- Note 16 Trade and other payables on page 194
- Note 31 Restatements to the prior year on page 215

This restatement to the prior year impacts the following Company disclosures:

- Company statement of financial position on page 221
- Note 34 Trade and other receivables on page 225
- Note 36 Trade and other payables on page 227
- Note 46 Restatements to the prior year on page 243

Insurance claims receivable

Background

It was identified from a review that our classification of the insurance claims receivable was current, i.e. to be collected within the next 12 months despite our recognition of the insurance provision as non-current i.e. not due for settlement within one year. The Group has therefore reclassified the insurance claims receivable from current to non-current, to be in line with the insurance provision classification.

Restatements to the prior year

The comparative periods 1 April 2017 and 31 March 2018 have been restated to reflect this change in classification. The amount that has been reclassified from current to non-current for the comparative periods has been included in the table below.

Comparative period	£m
1 April 2017	39.0
31 March 2018	36.1

This restatement to the prior year impacts the following Group disclosures:

- Consolidated statement of financial position on page 158
- Note 14 Trade and other receivables on page 192
- Note 31 Restatements to the prior year on page 215

This restatement to the prior year impacts the following Company disclosures:

- Company statement of financial position on page 221
- Note 34 Trade and other receivables on page 225
- Note 46 Restatements to the prior year on page 243

New accounting policies and financial reporting changes

A number of amendments to IFRSs became effective for the financial year beginning 1 April 2018. We have undertaken an assessment over the impact of adopting the new accounting standards that are now effective, including IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

Revenue recognition

The core principle of IFRS 15 "Revenue from Contracts with Customers" requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer.

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded within contract liabilities (deferred income). Bad debt on bills raised in the year considered uncollectable based on historical experience, is excluded from revenue to ensure revenue is recorded at the amount which the Group expects to receive, for providing its services to customers.

The following services are recorded within "Revenue" in the Income Statement since they relate to our obligation as a water and wastewater services provider to provide these services to our customers:

Water and wastewater services

As an appointed water and wastewater services provider, the Group has an ongoing obligation to provide water and wastewater services to customers in its statutory supply area. The Group is obligated to provide a continuous supply of services across the entire network, and so customers simultaneously receive and consume the benefits in line with the Group performing its obligation.

The Group recognises revenue for water and wastewater services in the amount which it has a right to receive, since this amount is considered by management to correspond directly with the value to the customer of the Group's performance to date. This accounting treatment is an application of the practical expedient given in paragraph B16 of IFRS 15.

For unmeasured customers, the amount of consideration to which the Group has the right to receive is determined by the rateable value of the customer's property, as assessed by an independent rating officer, such that revenue is recognised on a straight line basis over the course of the financial period.

For metered customers, the amount of consideration which the Group has the right to receive is determined by actual usage, derived from meter readings. Revenue includes an estimate of the amount of mains water and wastewater charges unbilled to metered customers at the period end, which are recorded within contract assets.

IFRS 15 usually requires the disclosure of the aggregate amount of revenue which is expected to be derived from performance obligations which are unsatisfied as at the end of the reporting period. In other words, the aggregate amount of future revenues from existing ongoing contracts. Management consider that such an amount cannot be reliably estimated, primarily because the Group's obligation to supply customers with water and wastewater services will continue in perpetuity. The Group has applied the practical expedient, given in paragraph 121(b) of IFRS 15, not to disclose this amount in relation to water and wastewater charges.

There is no impact on the recognition of water and wastewater services as a result of the adoption of IFRS 15.

The following services are recorded within "Other operating income" in the Income Statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Requisitions

The Group may be contracted by customers in its statutory supply area to provide a new water main or new sewer. This is known as a requisition. These services are usually provided to property developers and are each considered by management to be distinct performance obligations.

Requisition income is recognised over time in other operating income using the input method by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions income is recorded within contract liabilities (deferred income).

There is no impact on the recognition of income from requisitions as a result of the adoption of IFRS 15.

Service connections

A service connection includes the provision of a connection to an existing water main or sewer, laying a pipe to the boundary of a customer's property and connecting to their supply pipe. Management considers that the combination of these activities comprise a distinct performance obligation to the customer. Service connection income is recognised in other operating income at the point in time that the service is complete.

There is no material impact on the recognition of income from service connections as a result of the adoption of IFRS 15.

Diversions

The Group may be contracted by customers in its statutory supply area to relocate a pipe which is already in the ground. This is known as a diversion. Charges for diversions are recognised over time in other operating income using the input method by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. The costs incurred are used as a measure of the estimated progress to completing the performance obligation.

There is no impact on the recognition of income from diversions as a result of the adoption of IFRS 15.

Income from infrastructure charges

The Group applies infrastructure charges to a developer when the Group provides a first-time supply of water and/or wastewater services for a property. These charges cover the future investment needed to meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure (excluding treatment works).

Management considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enables the Group to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Group recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset. Deferred infrastructure charges are recorded within contract liabilities (deferred income).

Infrastructure charges were previously recognised over a 30 year period, under IAS 18 "Revenue". As a result of the adoption of IFRS 15, the period has changed to be consistent with our depreciation policy in respect of the associated asset. The assets and their respective estimated useful life are as follows:

Network assets	Years
Wastewater network assets	150
Water network assets	80–100

New accounting policies and financial reporting changes continued

Notwithstanding the length of time between when the Group performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money. Amounts are collected before the services are provided because the regulations require payment to be made by the initial customer or developer. The amounts collected do not provide a significant financing benefit.

There is an impact on the recognition of income from infrastructure charges as a result of the adoption of IFRS 15 and this has been discussed in the "Transition to new IFRSs" section on page 170.

Adoptions

As an appointed water and sewerage undertaker, the Group may be required to adopt private assets, such as a sewer or pumping station, which has been constructed by a customer. On adoption, the asset becomes part of the Group's water/wastewater network and is maintained at the Group's expense. Management considers that this is an exchange transaction in which the performance obligation is the ongoing and future maintenance of the asset, and the consideration transferred by the customer is the asset itself.

Adopted assets are recognised in property, plant and equipment at their fair value at the time of transfer. The associated consideration on transfer is recognised in other operating income on a straight line basis over the life of the asset. Deferred revenue in relation to adopted assets is recorded within contract liabilities.

The contract does not contain a financing component because the timing of the consideration transferred by the customer does not provide the Group with a significant benefit of financing its performance obligation. Accordingly, no adjustment is made for the time value of money.

There is no impact on the recognition of adopting an asset as a result of the adoption of IFRS 15.

Financial instruments

The Group has adopted IFRS 9 "Financial Instruments: Recognition and Measurement" as at 1 April 2018 and applied the new rules using a modified retrospective approach, including the practical expedients permitted in the standard, where applicable. The Group has undertaken an assessment of our accounting policy as a result of the changes in the standard:

Classification and measurement

The review included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS 9. Management's assessment concludes that there are no changes in classification or measurement of its assets and liabilities and no change in accounting policy as a result of adopting IFRS 9 except as mentioned on page 174.

Impairment methodology

Financial assets

IFRS 9 introduces a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses, as was required under IAS 39. Management has assessed the impact on trade receivables and contract assets and concluded that there is no significant change in the Group's impairment methodology as most of our receivables are short term, and therefore no material impact on the provision for losses against trade receivables presented in the financial statements.

A credit 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. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

Utilising the practical expedient (IFRS 9 B5.5.35), the Group's assessment for calculating expected credit losses is made by reference to its historical collection experience, including comparisons of the relative age of the individual balance and the 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.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Hedge accounting

IFRS 9 provides increased flexibility for hedge accounting, introducing a new, simpler hedge accounting model with a principles-based approach designed to align the accounting result with the economic hedging strategy. The Group currently uses cash flow hedge relationships to hedge interest rate risk on borrowings. Management has confirmed that the current hedge relationships continue to qualify as hedges following the adoption of IFRS 9.

Transition to new IFRSs

IFRS 15 "Revenue from Contracts with Customers" applicable from 1 April 2018

Transition approach

IFRS 15 "Revenue from Contracts with Customers" addresses the recognition of revenue and replaces IAS 18 "Revenue" and IFRIC 18 "Transfer of Assets from Customers". The Group and Company have adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group and Company have restated both comparative periods presented in the financial statements which include 1 April 2017 and 31 March 2018.

The standard requires the identification of performance obligations in contracts with customers and allocation of the total contractual value to each of the performance obligations identified. Revenue is recognised as each performance obligation is satisfied either at a point in time or over time.

Adjustments

As discussed in the accounting policies section on page 169, the Group and Company now recognise infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings. The adjustment has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years.

In addition, in accordance with IFRS 15, we have made a re-classification for amounts relating to contract assets and liabilities. These adjustments have been presented in the table below.

Group

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application, 1 April 2017:

	Note	IAS 18 carrying amount * As previously stated 31 March 2017 £m	Remeasurement £m	Reclassification £m	IFRS 15 carrying amount * 1 April 2017 £m
Current assets					
Trade and other receivables	14	637.4	–	(247.8)	389.6
Contract assets	14	–	–	247.8	247.8
Subtotal		**637.4**	**–**	**–**	**637.4**
Current liabilities					
Trade and other payables	16	938.7	(10.7)	(125.5)	802.5
Contract liabilities	16	–	–	125.5	125.5
Subtotal		**938.7**	**(10.7)**	**–**	**928.0**
Non-current liabilities					
Trade and other payables	16	404.9	131.2	(536.1)	–
Contract liabilities	16	–	–	536.1	536.1
Deferred tax	19	792.4	(20.5)	–	771.9
Subtotal		**1,197.3**	**110.7**	**–**	**1,308.0**

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of the previous set of annual financial statements, 31 March 2018:

	Note	IAS 18 carrying amount * As previously stated 31 March 2018 £m	Remeasurement £m	Reclassification £m	IFRS 15 carrying amount * 1 April 2018 £m
Current assets					
Trade and other receivables	14, 31	621.4	–	(225.9)	395.5
Contract assets	14, 31	–	–	225.9	225.9
Subtotal		**621.4**	**–**	**–**	**621.4**
Current liabilities					
Trade and other payables	16, 31	820.6	(11.5)	(129.4)	679.7
Contract liabilities	16, 31	–	–	129.4	129.4
Subtotal		**820.6**	**(11.5)**	**–**	**809.1**
Non-current liabilities					
Trade and other payables	16, 31	446.0	143.9	(589.9)	–
Contract liabilities	16, 31	–	–	589.9	589.9
Deferred tax	19, 31	853.7	(22.5)	–	831.2
Subtotal		**1,299.7**	**121.4**	**–**	**1,421.1**

* The amounts in this column are before the adjustments from the adoption of IFRS 9, recognition of the TWMIPS surplus and restatement of the insurance claims receivable from non-current to current.

New accounting policies and financial reporting changes continued

The impact on the Group's total equity is as follows:

	Note	**1 April 2018 £m**	1 April 2017 £m
Total equity – before IFRS 15 restatement		**(2,854.3)**	(2,536.3)
Decrease in cumulative infrastructure charges recognised in other operating income	31	**132.4**	120.5
Decrease in cumulative taxation on profit/loss on ordinary activities	31	**(22.5)**	(20.5)
Opening total equity 1 April – after IFRS 15 restatement		**(2,744.4)**	(2,436.3)

Company

In summary, the following adjustments were made to the amounts recognised in the Company statement of financial position at the date of initial application, 1 April 2017:

		IAS 18 carrying amount *			IFRS 15 carrying amount *
	Note	As previously stated 31 March 2017 £m	Remeasurement £m	Reclassification £m	1 April 2017 £m
Current assets					
Trade and other receivables	46	637.2	–	(247.8)	389.4
Contract assets	46	–	–	247.8	247.8
Subtotal		**637.2**	**–**	**–**	**637.2**
Current liabilities					
Trade and other payables	46	931.0	(10.7)	(125.5)	794.8
Contract liabilities	46	–	–	125.5	125.5
Subtotal		**931.0**	**(10.7)**	**–**	**920.3**
Non-current liabilities					
Trade and other payables	46	404.9	131.2	(536.1)	–
Contract liabilities	46	–	–	536.1	536.1
Deferred tax	46	877.4	(20.5)	–	856.9
Subtotal		**1,282.3**	**110.7**	**–**	**1,393.0**

The following adjustments were made to the amounts recognised in the Company statement of financial position at the date of the previous set of financial statements, 31 March 2018:

	Note	IAS 18 carrying amount * As previously stated 31 March 2018 £m	Remeasurement £m	Reclassification £m	IFRS 15 carrying amount * 1 April 2018 £m
Current assets					
Trade and other receivables	34, 46	621.5	–	(225.9)	395.6
Contract assets	34, 46	–	–	225.9	225.9
Subtotal		**621.5**	**–**	**–**	**621.5**
Current liabilities					
Trade and other payables	36, 46	813.3	(11.5)	(129.4)	672.4
Contract liabilities	36, 46	–	–	129.4	129.4
Subtotal		**813.3**	**(11.5)**	**–**	**801.8**
Non-current liabilities					
Trade and other payables	36, 46	446.0	143.9	(589.9)	–
Contract liabilities	36, 46	–	–	589.9	589.9
Deferred tax	39, 46	919.8	(22.5)	–	897.3
Subtotal		**1,365.8**	**121.4**	**–**	**1,487.2**

* The amounts in this column are before the adjustments from the adoption of IFRS 9, recognition of the TWMIPS surplus and restatement of the insurance claims receivable from non-current to current.

The impact on the Company's total equity is as follows:

	Note	**1 April 2018 £m**	1 April 2017 £m
Total equity – before IFRS 15 restatement		**(3,147.4)**	(2,923.8)
Decrease in cumulative infrastructure charges recognised in other operating income	46	**132.4**	120.5
Decrease in cumulative taxation on profit/loss on ordinary activities	46	**(22.5)**	(20.5)
Opening total equity 1 April – after IFRS 15 restatement		**(3,037.5)**	(2,823.8)

New accounting policies and financial reporting changes continued

IFRS 9 "Financial Instruments" applicable from 1 April 2018

Transition approach

IFRS 9 "*Financial Instruments*", which replaces IAS 39 "*Financial Instruments: Recognition and Measurement*", introduces new requirements for recognition, classification and measurement, a new impairment model for financial assets based on expected credit losses, and simplified hedge accounting. The Group and Company have adopted IFRS 9 as at 1 April 2018 and applied the new rules using a modified retrospective approach. As a result, comparatives have not been restated. Management has conducted an assessment of the impact of IFRS 9 and concluded on the following impact below:

Adjustments

During December 2016, a £400 million Class A Puttable, Callable, Resettable ("PCR") bond issued by Thames Water Utilities Cayman Finance Limited ("TWUCF") with a final maturity of 9 April 2058 was exchanged for a new £400 million Class A 2058 bond with the same final maturity. In turn a PCR bond issuance related intercompany loan from TWUCF to TWUL was also exchanged for a new intercompany loan with a final maturity of 9 April 2058. On adoption of IFRS 9, a loss of £26.5 million related to PCR bond exchange has been recognised within the Group's retained earnings and a loss of £26.2 million related to the intercompany loan exchange has been recognised within the Company's retained earnings. Derivative assets and liabilities have continued to be recognised at fair value with movements recognised in the income statement or the cash flow hedge reserve where the instrument has been designated in a hedge relationship.

Group

In summary, the following adjustments were recognised in the consolidated statement of financial position at the date of transition, 1 April 2018:

	Note	IAS 39 carrying amount* As previously stated 31 March 2018 £m	Remeasurement £m	IFRS 9 carrying amount* 1 April 2018 £m
Non-current liabilities				
Borrowings	17	(10,822.2)	(26.5)	(10,848.7)
Deferred tax	19	(853.7)	4.5	(849.2)
Subtotal		**(11,675.9)**	**(22.0)**	**(11,697.9)**
Equity				
Retained earnings		2,854.3	(22.0)	2,832.3
Subtotal		**2,854.3**	**(22.0)**	**2,832.3**

* The amounts in this column are before the adjustments from the adoption of IFRS 15 and recognition of the TWMIPS surplus.

Company

In summary, the following adjustments were recognised in the Company statement of financial position at the date of transition, 1 April 2018:

	Note	IAS 39 carrying amount* As previously stated 31 March 2018 £m	Remeasurement £m	IFRS 9 carrying amount* 1 April 2018 £m
Non-current liabilities				
Borrowings	37	(11,123.0)	(26.2)	(11,149.2)
Deferred tax	39	(919.8)	4.5	(915.3)
Subtotal		**(12,042.8)**	**(21.7)**	**(12,064.5)**
Equity				
Retained earnings		2,136.1	(21.7)	2,114.4
Subtotal		**2,136.1**	**(21.7)**	**2,114.4**

* The amounts in this column are before the adjustments from the adoption of IFRS 15 and recognition of the TWMIPS surplus.

The following issued standards have not yet been adopted by the Group:

- IFRS 16 *Leases*, which will be effective on 1 January 2019 (and thus to the Group from 1 April 2019).

IFRS 16 *Leases* replaces IAS 17 *Leases and related interpretations* and sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. Under the provisions of IFRS 16, most leases, including those previously classified as operating leases, will be recognised in the statement of financial position as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 *Property, Plant and Equipment* and the liability increased for the accretion of interest and reduced by lease payments.

Operating lease payments represent rentals payable by the Group for certain office properties, and plant and equipment. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is probable that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature and the group has the ability to mutually agree changes to the arrangement with the lessor.

Management anticipates that the Group will adopt this standard on its effective date and has no plans for early adoption. In considering the transition options available under IFRS 16, it is likely that the Group will adopt the fully retrospective method which has the advantage of having, in the first reporting period, a comparative period prepared on the same basis.

Management has assessed the impact of the implementation of IFRS 16 on the Group. The work performed to date has indicated that there will be a material impact to the statement of financial position primarily due to the Group's property lease portfolio. Initial assessments of the Group's property leases, estimate an additional aggregate lease liability of at least £72 million under the fully retrospective method, will be recognised on transition to the new standard. The Group estimates that the right of use asset recognised on transition to the new standard would be at least £52 million and that profit before tax would decrease by approximately £0.3 million for the period of adoption.

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio. A risk that this covenant may be breached in future was initially identified. Management has addressed the risk of covenant breach through amendment to the covenant calculations. Leases that would have been identified as operating leases prior to the new standard will not count towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio.

The actual impact of applying IFRS 16 will depend on the composition of the Group's lease portfolio at the adoption date and the extent to which the Group chooses to use practical expedients and the recognition exemption. Under IFRS 16, the Group will continue to account for short-term (under 12 months) and immaterial leases on the same basis as is required for operating leases under IAS 17. That is, recognising the lease payments as an expense on a straight-line basis over the lease term.

In addition to these, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the financial statements of the Group.

Changes in accounting policies

IFRIC 14 IAS 19 "The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Background

In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme the Company did not have an unconditional right to the surplus based upon their interpretation of the provisions of IFRIC 14. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted of a deficit within the TWPS scheme and a restricted surplus in the TWMIPS scheme.

Following a further review and after obtaining legal advice, the Directors have concluded that a different acceptable interpretation of IFRIC 14 provided a truer, fairer picture of the pension scheme arrangements for our stakeholders. The Directors concluded that the Trust Deed provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full.

Adjustments

Following the review we have recognised the surplus for the TWMIPS scheme and have restated the comparative periods.

Deferred tax is provided at 35% on the TWMIPS scheme, rather than at the standard rate of 17%, because the higher tax rate would be payable in future if the scheme surplus were to be returned to the employer (the Group).

New accounting policies and financial reporting changes continued

Group

In summary, the following adjustments were made to the amounts recognised in the Group statement of financial position at the date of initial application, 1 April 2017:

	Note	Carrying amount* As previously stated 31 March 2017 £m	Remeasurement £m	Carrying amount* 1 April 2017 £m
Non-current assets				
Pension asset	31	–	21.7	21.7
Non-current liabilities				
Pension deficit	31	(379.8)	15.0	(364.8)
Deferred tax	31	(792.4)	(12.9)	(805.3)
Subtotal		**(1,172.2)**	**23.8**	**(1,148.4)**
Equity				
Retained earnings	31	1,576.6	23.8	1,600.4
Subtotal		**1,576.6**	**23.8**	**1,600.4**

* The amounts in this column are before the adjustments from the adoption of IFRS 15.

In summary, the following adjustments were made to the amounts recognised in the Group statement of financial position at 31 March 2018:

	Note	Carrying amount* As previously stated 31 March 2018 £m	Remeasurement £m	Carrying amount* 1 April 2018 £m
Non-current assets				
Pension asset	22	–	50.6	50.6
Non-current liabilities				
Pension deficit	22	(300.8)	–	(300.8)
Deferred tax	19	(853.7)	(17.7)	(871.4)
Subtotal		**(1,154.5)**	**32.9**	**(1,121.6)**
Equity				
Retained earnings	31	1,843.0	32.9	1,875.9
Subtotal		**1,843.0**	**32.9**	**1,875.9**

* The amounts in this column are before the adjustments from the adoption of IFRS 9 and IFRS 15.

Company

In summary, the following adjustments were made to the amounts recognised in the Company statement of financial position at the date of initial application, 1 April 2017:

	Note	Carrying amount* As previously stated 31 March 2017 £m	Remeasurement £m	Carrying amount* 1 April 2017 £m
Non-current assets				
Pension asset	46	–	21.7	21.7
Non-current liabilities				
Pension deficit	46	(379.8)	15.0	(364.8)
Deferred tax	46	(877.4)	(12.9)	(890.3)
Subtotal		**(1,257.2)**	**23.8**	**(1,233.4)**
Equity				
Retained earnings	46	1,964.1	23.8	1,987.9
Subtotal		**1,964.1**	**23.8**	**1,987.9**

* The amounts in this column are before the adjustments from the adoption of IFRS 15.

In summary, the following adjustments were made to the amounts recognised in the Company statement of financial position at 31 March 2018:

	Note	Carrying amount* As previously stated 31 March 2018 £m	Remeasurement £m	Carrying amount* 1 April 2018 £m
Non-current assets				
Pension asset	46	–	50.6	50.6
Non-current liabilities				
Pension deficit	22	(300.8)	–	(300.8)
Deferred tax	39	(919.8)	(17.7)	(937.5)
Subtotal		**(1,220.6)**	**32.9**	**(1,187.7)**
Equity				
Retained earnings	46	2,136.1	32.9	2,169.0
Subtotal		**2,136.1**	**32.9**	**2,169.0**

* The amounts in this column are before the adjustments from the adoption of IFRS 9 and IFRS 15.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Company, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")

Management reviews capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 10 and 11 respectively).

Net debt

Net debt is presented in note 18 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the banking covenants. Net debt on a statutory basis consists of borrowings less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other Group companies for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts, and including certain derivative financial liabilities as explained in note 18.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt.

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Company needs, Ofwat considers the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing

Gearing is the percentage of the Company's covenant net debt to RCV, and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Credit rating

The Company must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement which has been discussed in more detail in the section below.

In accordance with our financial covenants, we are required to disclose our underlying performance separately.

BTL

BTL represents the financial performance of the Group from the arrangement with Bazalgette Tunnel Limited. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance which has been discussed above. Refer to page 161 for more information on the BTL arrangement.

EBIT

Earnings before interest and taxation ("EBIT") is a key performance metric used by management. EBIT has been reconciled to statutory profit before tax in Note 1 Segmental analysis on page 181.

EBITDA

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") is a key performance metric used by management. EBITDA has been reconciled to statutory profit before tax in Note 1 Segmental analysis on page181.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2019 are contained in the sections below:

Accounting judgment – revenue recognition

Water and wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in revenue for the current year of £35.1 million (2018: £28.7 million), with a corresponding decrease in receivables as shown in note 14.

When the criteria for revenue recognition for a transaction are not met, recognition of the revenue is delayed until collectability is reasonably certain. Payments received in advance of entitlement are recorded within contract liabilities. Advance payments received from unmeasured customers for the year ended 31 March 2019 was £75.6 million (2018: £75.6 million).

Connections, requisitions and diversions

Management considers these types of income to be within the scope of IFRS 15, since a contract (as defined in the standard) exists with the developer.

The performance obligation is to install/extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and Thames Water will have a present right to payment for work performed to date.

The charges are standalone and are not reflective of the ongoing obligation to supply the occupants of the newly connected properties. Supply to the occupants is charged on a standalone basis. This supports the decision not to defer connections/requisitions charges beyond completion of the service to the developer.

Infrastructure charges

Management considers that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services.

This right to charge comes from our licence of appointment as a water and wastewater services provider. The income earned from the infrastructure charges enables us to invest in the network, to continue to fulfil our obligation to provide water and wastewater services to our customers. As a result of this obligation and long-term investment in our network, we deem that the income earned from infrastructure charges should be recognised over time rather than upfront.

Accounting estimate – provision for doubtful debt

Provisions are made against trade receivables based on an assessment of the recovery of debts including those which will:

- ultimately be cancelled and may or may not be rebilled; and
- of debts which have not yet been billed but are part of the metered sales accrual.

This assessment is made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2019 was £176.6 million (2018: £174.3 million). The actual level of receivables collected may differ from the estimated level of recovery which could have a positive or negative impact on financial statements.

We have performed sensitivity analysis on the main component of the bad debt model, the collection rates which can be summarised below:

Directly billed customers

Scenario	£m	Outcome
Current year collection rates increased by 1%	3.4	Reduction in charge
Current year collection rates reduced by 1%	(3.4)	Increase in charge

Indirectly billed customers

Scenario	£m	Outcome
£0.5 million increase in write offs	(1.1)	Increase in charge
£0.5 million reduction in write offs	1.1	Reduction in charge

Accounting judgment – IFRIC 14 "IAS 19" The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The Directors concluded that the Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up.

Refer to page 175 for more information on this accounting judgment.

Property, plant and equipment and intangible assets

Accounting judgment – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects, and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activity. Property, plant and equipment additions for the year ended 31 March 2019 were £1,117.5 million (2018: £1,087.0 million). Intangibles additions for the year ended 31 March 2019 were £71.2 million (2018: £61.8 million). Both figures include capitalised overheads and capitalised borrowing costs.

Management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently judgement is applied concerning the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangibles for the year ended 31 March 2019, net of commissioning, were £109.3 million (2018: £100.7 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods. The total depreciation charge for the year ended 31 March 2019 was £523.3 million (2018: £498.7 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could have a positive or negative impact on the financial statements. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome
Five year increase in average remaining useful life	49.3	Decrease in total depreciation and amortisation charge
Five year decrease in average remaining useful life	(60.2)	Increase in total depreciation and amortisation charge

Provisions for other liabilities and charges

Accounting judgment – recognition of other provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 20, total £24.6 million as at the year ended 31 March 2019 (2018: £42.0 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2019 totalled £109.0 million (restated 2018: £133.1 million). There is an inherent risk that the final outcome of commercial and legal cases will be different to amounts provided.

New accounting policies and financial reporting changes continued

Retirement benefit obligations

Accounting estimate – actuarial assumptions

The Group operates two defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2017, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2016, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. The pension liability and net cost recognised under IAS 19 *Employee Benefits* are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and are a source of estimation. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- increases to pensions in payment.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the two schemes as at 31 March 2019 was £293.0 million (restated 2018: £250.2 million), which includes a pension deficit of £338.8 million (2018: £300.8 million) for the TWPS scheme, offset by a pension surplus of £45.8 million (restated 2018: £50.6 million) for the TWMIPS scheme. Refer to Note 22 on page 207 for more information on the key assumptions and sensitivities of the pension schemes.

Guaranteed Minimum Pensions (“GMP”)

There are a number of uncertainties in the calculation of the cost of GMP equalisation raised by the scheme’s actuary at Aon. These include:

- The benefit structure of the scheme and operational practices;
- The demographic profile of the scheme;
- The method of GMP equalisation;
- Administrative implications of GMP equalisation; and
- Assumptions and market conditions.

The total cost of GMP equalisation for the two schemes was £9.0 million which was recognised in the income statement in the current year. Aon concluded that the actual cost of GMP equalisation may differ due to the above uncertainties with the range between £4.5 million and £18.0 million. The Group does not consider there to be a material impact of these uncertainties on the financial statements. Refer to Note 22 on page 207 for more information.

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index linked swaps;
- cross currency swaps; and
- interest rate swaps.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable. All of the Company’s inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate. The net total of derivate financial assets and liabilities as at 31 March 2019 was a liability of £1,101.1 million (31 March 2018 a liability of: £1,153.3 million). Refer to Note 18 on page 197 for more information on the key assumptions and sensitivities of the financial instruments.

Arrangement with Bazalgette Tunnel Limited (“BTL”)

BTL is the independent licensed utility company appointed to construct the Thames Tideway Tunnel. Under the terms of BTL’s licence, BTL will earn and collect revenues by charging the Group for its services. The Group will subsequently charge these amounts to its wastewater customers (based on modifications to the Company’s licence). Judgement has been exercised in assessing whether the Group is acting as principal or agent in its relationship with BTL.

Under IFRS 15 an entity must determine whether the nature of its promise is a performance obligation to deliver a good or service itself, or to arrange for them to be provided by another party. The Group is deemed to have primary responsibility for providing the “end to end” services relating to the disposal of waste from its wastewater customers from collection, transportation (through the existing infrastructure and the Thames Tideway Tunnel) to the processing in the Group’s sewage treatment plants. The Group continues to charge its wastewater customers for the end-to-end waste management service and the BTL element will not be separately reflected in customer bills.

Additionally, the Group, as the sole future user of the Tunnel, will remain exposed to the risks and rewards associated with the service of the overall sewerage system (which includes the Tunnel). These risks include reputational risks. Management therefore considers the Group is operating as principal in the relationship with BTL.

1. Segmental analysis

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Group.

In the prior year, the Group's structure consisted of three principal business segments which were Retail, Water and Wastewater, aligned to Ofwat's price controls. In April 2018, the Group implemented an internal reorganisation and as such has modified its operating structure. The transition to "One Thames" enables an end-to-end view of customer journeys and integrated resource management. Therefore, the CODM views the financial results of the Group as one single unit.

As such, the way in which the Group reports its results has changed. The reporting segments have been updated accordingly to reflect the new way in which the Group reports its financial information internally to the CODM. We have also restated prior year information as a result of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers". The impact on the transition to IFRS 15 has been discussed on pages 170–173.

From 1 April 2017, our customer profile changed following the sale of our non-household retail business to Castle Water Limited. The household customer profile remains large and diverse and consequently there is no significant reliance on any single household customer. There are now a smaller number of non-household customers, being retailers rather than the end user.

The Group is subject to economic regulation by Ofwat and operates under a licence to provide water and wastewater services within a defined geographical region, being London, the Thames Valley and the surrounding area; therefore, management considers the UK to be the geographical location of the business.

Segmental performance

A segmental analysis of the management revenue and EBIT figures has been presented with a reconciliation to statutory revenue and EBIT below:

Year ended 31 March	**2019 £m**	Restated[1] 2018 £m
External revenue excluding BTL	**2,070.1**	2,046.8
Total management revenue	**2,070.1**	2,046.8
Net operating expenses before depreciation and amortisation	**(1,150.4)**	(1,083.6)
Other operating (loss)/income including sale of the non-household business	**(2.5)**	107.7
Management earnings before interest, tax, depreciation and amortisation (EBITDA)	**917.2**	1,071.6

1 The impact of the transition to new accounting standards, IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 is discussed on pages 170–173.

Revenue and EBITDA – management to statutory reconciliation

The business segment's revenue is reconciled to the Group's statutory revenue below:

Year ended 31 March	**2019 £m**	Restated[1] 2018 £m
Management revenue	**2,070.1**	2,046.8
Statutory reclassification of bad debt from operational expenditure	**(33.2)**	(28.0)
Household BTL revenue	**38.7**	22.0
Non-household BTL revenue	**8.8**	4.9
Statutory reclassification of other operating income	**–**	(0.8)
Total statutory revenue	**2,084.4**	2,044.9

Notes to the consolidated financial statements continued

1. Segmental analysis continued

The business segment's EBITDA is reconciled to the Group's statutory operating profit and profit before tax below:

Year ended 31 March	2019 £m	Restated[1] 2018 £m
Management EBITDA	917.2	1,071.6
Depreciation of property, plant and equipment	(515.7)	(466.0)
Amortisation of intangible assets	(21.8)	(26.6)
Management EBIT	379.7	579.0
IFRS 15 adjustment[1]	–	(11.9)
Statutory recognition of other operating income[2]	60.4	67.6
Statutory reclassification of pension costs	11.5	13.9
Statutory depreciation and write off adjustments[3]	(7.0)	(51.5)
Household BTL revenue[4]	38.7	22.0
Non-household BTL revenue[4]	8.8	4.9
Profit on sale of the retail non-household business[5]	–	(89.7)
Other statutory adjustments[6]	9.1	(1.9)
Total statutory operating profit	501.2	532.4
Profit on the sale of retail non-household business[5]	–	89.7
Finance income[7]	42.1	27.0
Finance expense[7]	(406.8)	(436.4)
Net (losses)/gains on financial instruments	(37.7)	40.9
Total statutory profit before tax	98.8	253.6

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173.
2 Requisitions and diversion charges, service connection charges, amortisation of deferred income recognised on adoption of assets at nil cost and the release from deferred income of infrastructure charges are recognised in other operating income for statutory purposes (as disclosed in Note 2) but are offset against capital expenditure for management purposes. Recognition of infrastructure charges has been impacted by the transition to IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018. The impact is discussed on pages 170–173.
3 Depreciation of adopted fair value assets, borrowing costs and write-offs recognised for statutory purposes only.
4 The portion of BTL revenue related to our household and non-household customers.
5 Please refer to Note 5 for further information.
6 Other statutory adjustments for 31 March 2019 includes £5.9 million of fees incurred for the liquidation of the Cayman Island entities that are recognised in finance expense for statutory purposes. The remaining £3.6 million relates to an adjustment for bad debt, offset by £0.4 million relating to an adjustment for an IT contract for statutory purposes.
7 The prior year results have been restated due to take account of the netting down of interest receivable from swaps against interest payable on swaps as discussed on page 167.

2. Revenue

Year ended 31 March	2019			2018		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Gross revenue	2,070.1	47.7	2,117.8	2,046.0	27.6	2,073.6
Charge for bad and doubtful debts	(33.2)	(0.2)	(33.4)	(28.0)	(0.7)	(28.7)
Total	2,036.9	47.5	2,084.4	2,018.0	26.9	2,044.9

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. For the year ended 31 March 2019, the Group has included costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected it is paid over to BTL under the "pay when paid" principle. The revenue on this arrangement, which is excluded from our key performance indicators, has been disclosed separately to the Group's underlying performance in the table above. The primary reason for the increase in revenue is driven by the phasing of construction works.

We have presented a further disaggregation of our revenue below:

Gross revenue for the year ended 31 March	**2019 £m**	2018 £m
Household market		
Water services	**652.5**	628.0
Wastewater services	**831.5**	802.1
Retail services	**170.2**	168.3
Total gross revenue from household market	**1,654.2**	1,598.4
Non-household market		
Water services	**188.7**	214.0
Wastewater services	**180.4**	187.7
Retail services	**(0.1)**	(0.9)
Total gross revenue from non-household market	**369.0**	400.8
Gross revenue from principal services	**2,023.2**	1,999.2
Other appointed revenue	**23.2**	20.9
Total appointed revenue	**2,046.4**	2,020.1
Other non-appointed revenue (excluding amounts billed for the Thames Tideway Tunnel)	**23.7**	25.9
Total gross underlying revenue	**2,070.1**	2,046.0
Amounts billed for the Thames Tideway Tunnel	**47.7**	27.6
Total gross revenue	**2,117.8**	2,073.6

All revenue is derived from activities based in the UK.

Appointed revenue is revenue generated from 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. Other appointed revenue is revenue generated from appointed activities but is not governed by the price control. These activities mainly include bulk supplies. Non-appointed revenue is revenue generated from non-appointed activities. These activities include third party discharges to sewage treatment works and other commercial activities including developer services, property searches and cess treatment (treatment of waste from private receptacles not linked to the network).

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

Year ended 31 March	**2019 £m**	Restated[1] 2018 £m
Power income	**13.2**	10.1
Requisitions and diversions charges	**31.5**	25.5
Service connections charges	**21.1**	23.4
Amortisation of deferred income recognised on adoption of assets at nil cost	**4.0**	2.4
Release from deferred income – infrastructure charges[1]	**4.9**	4.5
Rental income	**2.7**	2.6
(Loss)/profit on sale of property, plant and equipment	**(7.0)**	11.4
Other income	**1.4**	2.2
Total	**71.8**	82.1

The above is within the scope of IFRS 15 "Revenue from Contracts with Customers" and as such the revenue related disclosures included in sections 2.1, 2.2 and 2.3 below include other operating income.

Power income comprises income from the sale of internally generated electricity.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173.

2. Revenue continued

2.1 Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

As at 31 March	Note	2019 £m	2018 £m
Contract assets			
Current			
Accrued revenue for services provided to metered customers		144.3	124.0
Accrued income for other activities[1]		73.7	62.2
Total current contract assets	14	217.9	186.2
Total contract assets		217.9	186.2
Contract liabilities			
Non-current			
Deferred revenue from infrastructure charges		497.0	481.2
Deferred revenue from other activities[2]		139.1	108.7
Total non-current contract liabilities	16	636.1	589.9
Current			
Advance payments received from unmeasured customers		75.6	75.6
Deferred revenue from infrastructure charges		5.1	4.9
Deferred revenue from other activities[2]		33.3	48.9
Total current contract liabilities	16	114.0	129.4
Total contract liabilities		750.1	719.3

1 Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 161).
2 Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

2.2 Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities and how much relates to performance obligations that were satisfied in a prior period.

Year ended 31 March	Note	2019 £m	2018 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:			
Advance payments received from unmetered customers	16	75.6	81.1
Deferred revenue from infrastructure charges	16	4.9	4.5
Deferred revenue from other activities	16	48.9	39.1
Total		129.4	124.7

2.3 Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

Year ended 31 March	2019 £m	2018 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Developer services		
Service connections	8.0	6.4
Requisitions and diversions	12.5	15.0
Infrastructure charges	502.1	486.1
Other	3.5	3.7
Eight2o		
High Speed 2	21.1	28.5
Total	547.2	539.7

The Company considers the performance commitment associated with Service Connections, Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Thus the amounts disclosed in the table above represent amounts received for schemes which have either not started on site or which are part way through construction at the balance sheet date. As such this income will be recognised on an individual basis in accordance with the delivery profile of each scheme. Typically amounts received in respect of service connections will be fully recognised within a year following receipt, however Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Company considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate.

The Group has applied the practical expedient, given in paragraph 121(b) of IFRS 15, not to disclose this amount in relation to water and wastewater charges. Refer to page 169 in the accounting policies section for information.

3. Operating expenses

Year ended 31 March		2019			Restated[1] 2018	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Wages and salaries	**253.3**	**–**	**253.3**	223.2	–	223.2
Social security costs	**28.2**	**–**	**28.2**	23.9	–	23.9
Pension costs – defined benefit schemes[1]	**34.7**	**–**	**34.7**	27.1	–	27.1
Pension costs – defined contribution schemes	**11.0**	**–**	**11.0**	8.1	–	8.1
Severance costs and apprenticeship levy	**1.9**	**–**	**1.9**	1.8	–	1.8
Total employee costs	**329.1**	**–**	**329.1**	284.1	–	284.1
Power	**124.7**	**–**	**124.7**	108.4	–	108.4
Carbon reduction commitment	**4.5**	**–**	**4.5**	4.8	–	4.8
Raw materials and consumables	**59.3**	**–**	**59.3**	55.3	–	55.3
Charge for bad and doubtful debts[2]	**28.9**	**0.3**	**29.2**	28.4	0.4	28.8
Rates	**117.3**	**–**	**117.3**	115.1	–	115.1
Operating lease rental – plant and machinery	**7.6**	**–**	**7.6**	5.2	–	5.2
Operating lease rental – other	**5.8**	**–**	**5.8**	5.6	–	5.6
Research and development expenditure	**3.9**	**–**	**3.9**	3.5	–	3.5
Insurance	**34.6**	**–**	**34.6**	37.1	–	37.1
Legal and professional fees	**28.9**	**–**	**28.9**	19.5	–	19.5
Other operating costs	**554.2**	**–**	**554.2**	599.2	–	599.2
Own work capitalised	**(189.4)**	**–**	**(189.4)**	(198.2)	–	(198.2)
Net operating expenses before depreciation and amortisation	**1,109.4**	**0.3**	**1,109.7**	1,068.0	0.4	1,068.4
Depreciation of property, plant and equipment	**523.3**	**–**	**523.3**	498.7	–	498.7
Amortisation of intangible assets	**22.0**	**–**	**22.0**	27.5	–	27.5
Net operating expenses	**1,654.7**	**0.3**	**1,655.0**	1,594.2	0.4	1,594.6

Other operating costs primarily relate to costs for hired and contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditure under IAS 16: Property, plant and equipment.

1 The prior year results have been restated due to the impact of the change in accounting policy for the TWMIPS pension scheme surplus as discussed on pages 175–177.
2 Charge for bad and doubtful debts is net of £11.8 million relating to excess payments received from customers in the past and recognised during the year (2018: £4.6 million).

For the year ended 31 March 2019, PricewaterhouseCoopers LLP was appointed to complete the statutory audit (2018: KPMG LLP).

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

PricewaterhouseCoopers LLP	**2019 £'000**
Fees payable to the Group's auditor:	
Fees payable for the audit of the Group and Company financial statements	**470**
Fees payable for the audit of the subsidiary financial statements	**149**
Fees payable to the Group's auditor for other services:	
Audit related assurance services	**900**
PR19 assurance services	**499**
Other assurance services	**70**
Total aggregate remuneration	**2,088**

3. Operating expenses continued

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

KPMG LLP	2018 £'000
Fees payable to the Company's auditor:	
Fees payable for the audit of the Company's financial statements	370
Fees payable for the audit of the subsidiary financial statements	33
Fees payable to the Company's auditor for other services:	
Audit related assurance services	205
Other assurance services	410
Other services	140
Total aggregate remuneration	**1,158**

Total aggregate remuneration has increased due to the change from company only to consolidated accounts, the liquidation of the Cayman Island entities, new standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" and additional work on pensions following the recognition of the TWMIPS surplus and legislation relating to Guaranteed Minimum Pensions.

Fees payable for the audit of the Group's financial statements include £55,000 for out of pocket expenses incurred for delivery of the audit.

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

4. Employees and Directors

Employees

All Company employees are based in the United Kingdom. No employees were employed by TWUF. The average number of persons employed on a permanent basis by the Company (including Executive Directors) during the year, analysed by category, was as follows:

	2019 Number	2018 Number
Operations	3,489	3,119
Customer experience	1,135	1,003
Support services	1,101	1,043
Digital, strategy and transformation	189	132
Delivery office	149	124
Total persons employed	**6,063**	5,421

Directors

The Directors' emoluments were as follows:

	2019 £'000	2018 £'000
Salary and fees	1,818	1,677
Pension and pension allowances	220	201
Bonus	556	565
Long-term incentive plan	–	–
Payment on loss of office	–	–
Other benefits	80	28
Total aggregate emoluments	**2,674**	2,471

Included in the table above, is £1,738,162 (2018: £1,634,000) for the Executive Directors for their services to the Company. In addition, the Executive Directors received total remuneration of £744,927 (2018: £700,000) for their services to other companies within the Kemble Water Holdings Group.

In the current and preceding financial years no amounts were accruing to any Directors under the Company's defined benefit scheme in respect of services to the Company. The Company contributed cash of £220,000 (2018: £201,000) as a pension supplement for three Directors (2018: three Directors). In the current and preceding years, the Company made no contributions into the Company's defined contribution pension scheme in relation to the Directors.

Amounts disclosed in respect of the long-term incentive plan ("LTIP") are those where all performance and service conditions have been met. Detailed disclosures of items of remuneration, including those accruing under LTIPs can be found within the Remuneration Committee Report on pages 126–140.

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Company during the year were £688,677 (2018: £596,000). In addition, emoluments of £295,147 (2018: £255,000) were paid to the highest paid Director for services to other companies within the Company.

5. Profit on sale of non-household business

From 1 April 2017 the Water Act 2014 allows all non-household customers to choose their supplier of water and wastewater retail services. On 18 July 2016, we announced our decision to exit the non-household retail market, and transfer our non-household customers to Castle Water Limited from the date of market opening. On 1 April 2017 all non-household retail customers of Thames Water were transferred to Castle Water Limited which resulted in the recognition of a profit on sale of the business. The profit on sale of the business of £89.7 million has been recognised within the income statement, and consists of the amounts below:

Year ended 31 March	**2019 £m**	2018 £m
Proceeds	–	98.8
Legal fees	–	(1.3)
Asset impairment	–	(6.2)
Transfer/handover costs	–	(1.6)
Profit on sale of non-household business	–	89.7

6. Finance income and expense

During the year ended 31 March 2019, the Group recognised finance income of £42.1 million (restated – year ended 31 March 2018: £27.0 million) relating mainly to interest on intercompany loans, swap novation income and interest on bank deposits.

Finance income

Year ended 31 March	**2019 £m**	Restated[1] 2018 £m
Interest income on bank deposits	**0.7**	0.6
Interest income on intercompany loans receivable	**24.1**	16.6
Interest income on swaps	**8.9**	9.2
Other finance income on swaps	**7.5**	–
Other interest income	**0.9**	0.6
Total finance income	**42.1**	27.0

Finance expense

The Group also recognised finance expenses of £406.8 million (restated – year ended 31 March 2018: £436.4 million) relating mainly to interest and accretion on loans, other borrowings, fees incurred in relation to the transfer of assets and liabilities of the Cayman Islands entities and defined benefit pension obligations.

Year ended 31 March	**2019 £m**	Restated[1] 2018 £m
Interest in relation to bank and other loans:		
Interest expense	**(393.5)**	(379.5)
RPI accretion on loans	**(110.1)**	(148.6)
Interest in relation to intercompany borrowings:		
Net interest expense on defined benefit obligation	**(6.6)**	(9.0)
Fees:		
Fees incurred in relation to liquidation of the Cayman Islands entities[2]	**(5.9)**	–
Gross finance expense	**(516.1)**	(537.1)
Capitalised borrowing costs	**109.3**	100.7
Total finance expense	**(406.8)**	(436.4)

1 The prior year results of finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018. Refer to page 167 for more information on the presentation of interest on derivatives.

2 Finance expense for 31 March 2019 includes £5.9 million of fees incurred for the liquidation of the Cayman Island entities (2018: £nil).

7. Net (losses)/gains on financial instruments

The reconciliation to net (losses)/gains on financial instruments has been provided below:

Year ended 31 March	**2019 £m**	2018 £m
Exchange (losses)/gains on foreign currency borrowings	**(68.0)**	72.6
Gain arising on swaps where hedge accounting is not applied	**64.5**	52.6
Loss on cash flow hedge transferred from equity[1]	**(34.2)**	(84.3)
Total	**(37.7)**	40.9

1 Refer to Note 18 "Financial Instruments" on page 204 for more information on the loss on cash flow hedge transferred from equity.

8. Taxation

Year ended 31 March	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated[7] 2018 Underlying £m	Restated[7] 2018 BTL £m	Restated[7] 2018 Total £m
Current tax:						
Amounts payable in respect of group relief	1.0	2.8	3.8	3.3	1.6	4.9
Adjustment in respect of prior periods – group relief	0.5	–	0.5	–	–	–
Current tax subtotal	1.5	2.8	4.3	3.3	1.6	4.9
Deferred tax:						
Origination and reversal of timing differences	4.8	–	4.8	28.9	–	28.9
Adjustment in respect of prior periods	(0.2)	–	(0.2)	1.0	–	1.0
Deferred tax subtotal	4.6	–	4.6	29.9	–	29.9
Tax charge on profit on ordinary activities	6.1	2.8	8.9	33.2	1.6	34.8

The tax charge for the year ended 31 March 2019 is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

Year ended 31 March	2019 Underlying £m	2019 BTL £m	2019 Total £m	2019 Effective tax rate %	Restated[7] 2018 Underlying £m	Restated[7] 2018 BTL £m	Restated[7] 2018 Total £m	Restated[7] 2018 Effective tax rate %
Profit on ordinary activities before taxation	51.6	47.2	98.8		227.1	26.5	253.6	
Tax at 19% (2018: 19%)	9.8	9.0	18.8	19.0%	43.2	5.0	48.2	19.0%
Effects of:								
Recurring items								
Depreciation on assets that do not qualify for tax relief	4.2	–	4.2		4.4	–	4.4	
Disallowable expenditure[1]	0.6	–	0.6		0.8	–	0.8	
Non-taxable income[2]	(5.0)	–	(5.0)		(4.9)	–	(4.9)	
Property disposals[3]	–	–	–		(2.2)	–	(2.2)	
Group relief paid for at lower than statutory rate[4]	(2.7)	(6.2)	(8.9)		(5.9)	(3.4)	(9.3)	
Tax as adjusted for recurring items	6.9	2.8	9.7	9.8%	35.4	1.6	37.0	14.6%
Non-recurring items								
Effect of tax rate differences[5]	(1.1)	–	(1.1)		(3.2)	–	(3.2)	
Adjustments to tax charge in respect of prior periods – current tax	0.5	–	0.5		–	–	–	
Adjustments to tax charge in respect of prior periods – deferred tax	(0.2)	–	(0.2)		1.0	–	1.0	
Total tax charge	6.1	2.8	8.9	9.0%	33.2	1.6	34.8	13.7%

1 Disallowable expenditure primarily relates to fines included in operating expenses.
2 Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for 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 The Group intends to utilise tax losses available in its parent company for the year ended 31 March 2019. As a result, the Group intends to reduce its claims for tax relief on its capital expenditure in this period. The Group expects to pay £3.8 million to its parent company for the tax losses relating to the year ended 31 March 2019. The Group 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 Group. This results in a reduction of the current tax charge of £8.9 million. Utilising tax losses in this way should ultimately benefit customers through lower costs being recovered through bills in future regulatory settlements.
5 A reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The net deferred tax liability at 31 March 2019 has been calculated based on these rates, except on the pension surplus which is provided at 35% (see Note 19, page 205). Opening deferred tax balances at 31 March 2018 were also calculated at 17% and 35%. The effect of temporary differences in the year in current tax calculated at 19% and deferred tax calculated at 17% produces a net £1.1 million reduction in the total tax charge for the year (2018: reduction of £3.2 million).

The Group 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 differences between profit on ordinary activities before taxation at the standard tax rate and the current tax charge for the year are set out below.

Year ended 31 March	2019			Restated[7] 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Profit on ordinary activities before taxation	**51.6**	**47.2**	**98.8**	227.1	26.5	253.6
Tax at 19% (2018: 19%)	**9.8**	**9.0**	**18.8**	43.2	5.0	48.2
Effects of:						
Depreciation on assets that do not qualify for relief	**4.2**	**–**	**4.2**	4.4	–	4.4
Disallowable expenditure	**0.6**	**–**	**0.6**	0.8	–	0.8
Non-taxable income	**(5.0)**	**–**	**(5.0)**	(4.9)	–	(4.9)
Property disposals	**–**	**–**	**–**	(2.2)	–	(2.2)
Capital allowances for the year lower than depreciation	**45.2**	**–**	**45.2**	11.1	–	11.1
Capitalised borrowing costs allowable for tax[6]	**(20.8)**	**–**	**(20.8)**	(19.1)	–	(19.1)
Tax deduction available on restatement for IFRS 15[7]	**(25.1)**	**–**	**(25.1)**	–	–	–
Profits on financial derivatives[8]	**(3.6)**	**–**	**(3.6)**	(21.9)	–	(21.9)
Pension cost charge in excess of (lower than) pension contributions	**3.7**	**–**	**3.7**	(0.8)	–	(0.8)
Other short term timing differences	**(5.3)**	**–**	**(5.3)**	(1.4)	–	(1.4)
Group relief not paid at standard rate	**(2.7)**	**(6.2)**	**(8.9)**	(5.9)	(3.4)	(9.3)
Adjustments to tax charge in respect of prior periods	**0.5**	**–**	**0.5**	–	–	–
Current tax charge for the year	**1.5**	**2.8**	**4.3**	3.3	1.6	4.9

6 Capitalised borrowing costs are allowable for a full tax deduction in the year.
7 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173.
8 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.

Uncertain tax positions

At 31 March 2019, the total value of uncertain corporation tax positions was £nil (2018: £nil), reflecting the agreement of tax computations with HMRC up to and including 31 March 2016.

Effective tax rate

The effective tax rate, as adjusted for recurring tax items, of 9.8% is low primarily due to the effect of group relief paid for at below the statutory rate.

The deferred tax (charged)/credited directly to other comprehensive income during the year is as follows:

Year ended 31 March	**2019 £m**	2018 £m
Deferred tax:		
Tax on actuarial (gain)/loss	**4.3**	(17.1)[1]
Tax on cash flow hedges	**(4.3)**	(17.1)
Total	**–**	(34.2)

1 The prior year results have been restated due to the impact of the change in accounting policy for the TWMIPS pension scheme surplus as discussed on pages 175–177.

Notes to the consolidated financial statements continued

9. Dividends

During the year ended 31 March 2019, the Company paid total dividends of £60.0 million (2018: £55.0 million) to its immediate parent Thames Water Utilities Holdings Limited.

The dividend paid during the year ended 31 March 2019 was used to fund interest obligations and activities of other companies within the Kemble Water Holdings Group and was distributed as follows:

Year ended 31 March	**2019 £m**	2018 £m
Distribution to external shareholders:		
External dividend distributions	–	–
Kemble Water Eurobond Plc debt service costs	–	–
	–	–
Distributions not distributed to external shareholders:		
Kemble Water Finance Limited debt service costs	**58.0**	54.0
Distribution to Thames Water Limited	**2.0**	1.0
	60.0	55.0
Total	**60.0**	55.0

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2018: £1.0 million).

Dividends paid to Kemble Water Finance Limited were used to enable it to continue to meet its debt service obligations for both external and intercompany debt. Dividends paid to Thames Water Limited were used to fund activities of the company.

Further information on dividend payments can be found in Sustainable and responsible financing on page 26.

10. Intangible assets

	Software £m	Assets in development £m	**Total £m**
Cost:			
At 1 April 2017	189.6	78.9	**268.5**
Additions	–	61.8	**61.8**
Transfers	24.8	(24.8)	**–**
Write-off	–	(6.2)	**(6.2)**
At 31 March 2018	214.4	109.7	**324.1**
Additions	–	71.2	**71.2**
Transfers	26.5	(26.5)	**–**
At 31 March 2019	240.9	154.4	**395.3**
Accumulated amortisation:			
At 1 April 2017	(128.0)	–	**(128.0)**
Amortisation charge	(27.5)	–	**(27.5)**
At 31 March 2018	(155.5)	–	**(155.5)**
Amortisation charge	(22.0)	–	**(22.0)**
At 31 March 2019	(177.5)	–	**(177.5)**
Net book value:			
At 31 March 2019	63.4	154.4	**217.8**
At 31 March 2018	58.9	109.7	**168.6**

The write-off of costs in 2017/18 relates to software under development that is no longer required as a result of the transfer of non-household customers to Castle Water Limited. Additions relate to IT projects undertaken including the implementation of new customer relationship management and billing ("CRMB") system and a new meter data management system. £6.6 million borrowing costs were capitalised during the year (2018: £4.3 million). The write offs are included under operating expenses in the income statement. The effective rate of borrowing costs for the year was 4.91% (2018: 5.58%).

The gross carrying amount of intangible assets that was fully depreciated at 31 March 2019 amounted to £127.4 million (31 March 2018: £112.8 million).

11. Property, plant and equipment

	Land and building £m	Plant and equipment £m	Network assets £m	Assets under construction £m	**Total £m**
Cost:					
At 1 April 2017	3,412.5	6,838.6	6,747.0	2,089.5	**19,087.6**
Additions	1.1	–	13.2	1,072.7	**1,087.0**
Transfers between categories	18.7	382.4	323.4	(724.5)	**–**
Disposals	(1.8)	(13.1)	(1.8)	–	**(16.7)**
At 31 March 2018	3,430.5	7,207.9	7,081.8	2,437.7	**20,157.9**
Additions	–	0.5	18.8	1,098.2	**1,117.5**
Transfers between categories	170.7	504.2	233.1	(908.0)	**–**
Disposals	(1.5)	(22.6)	–	–	**(24.1)**
At 31 March 2019	3,599.7	7,690.0	7,333.7	2,627.9	**21,251.3**
Accumulated depreciation:					
At 1 April 2017	(885.5)	(3,742.8)	(364.8)	–	**(4,993.1)**
Depreciation charge	(52.2)	(318.4)	(128.1)	–	**(498.7)**
Disposals	0.3	8.9	–	–	**9.2**
At 31 March 2018	(937.4)	(4,052.3)	(492.9)	–	**(5,482.6)**
Depreciation charge	(53.2)	(335.9)	(134.2)	–	**(523.3)**
Disposals	0.7	13.8	–	–	**14.5**
At 31 March 2019	(989.9)	(4,374.4)	(627.1)	–	**(5,991.4)**
Net book value:					
At 31 March 2019	2,609.8	3,315.6	6,706.6	2,627.9	**15,259.9**
At 31 March 2018	2,493.1	3,155.6	6,588.9	2,437.7	**14,675.3**

£102.7 million of borrowing costs were capitalised in the period (2018: £96.4 million). The effective annual capitalisation rate for borrowing costs was 4.91% (2018: 5.58%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2019 amounted to £2,359.6 million (31 March 2018: £2,191.8 million).

12. Intercompany loans receivable

The carrying amounts of the Group's intercompany loans receivable are considered to be approximate to their fair values. The fair values and carrying values of the Group's intercompany loans receivable are set out in the tables below.

As at 31 March	**2019**		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Amounts owed by Group undertakings:				
Thames Water Utilities Holdings Limited	**1,974.7**	**1,974.7**	1,974.7	1,974.7
Interest receivable on amounts owed by Group undertakings:				
Thames Water Utilities Holdings Limited	**27.3**	**27.3**	3.2	3.2
Total	**2,002.0**	**2,002.0**	1,977.9	1,977.9
Disclosed within non-current assets	**1,974.7**	**1,974.7**	1,974.7	1,974.7
Disclosed within current assets	**27.3**	**27.3**	3.2	3.2

The above intercompany loan is unsecured. Refer to Note 27 "Post balance sheet events" for repayments of the intercompany loan receivable. These balances have not been included within the Group's net debt and covenant calculations.

Interest on the above loan is charged at a floating rate (2018: floating rate).

Notes to the consolidated financial statements continued

13. Inventories and current intangible assets

As at 31 March	**2019 £m**	2018 £m
Raw materials and consumables	**9.1**	11.5
Current intangible assets – emissions allowances	**4.4**	6.6
Total	**13.5**	18.1

Emission allowances represent purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK). A provision (see note 20) 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.

14. Trade and other receivables

As at 31 March		**2019**			Restated[1] 2018	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments	**–**	**101.9**	**101.9**	–	56.7	56.7
Amounts owed by Group undertakings	**0.3**	**–**	**0.3**	0.3	–	0.3
Insurance claims receivable[2]	**33.8**	**–**	**33.8**	36.1	–	36.1
Other receivables	**5.2**	**–**	**5.2**	3.0	–	3.0
	39.3	**101.9**	**141.2**	39.4	56.7	96.1
Current:						
Gross trade receivables	**454.9**	**9.5**	**464.4**	462.5	6.4	468.9
Less expected credit losses provision	**(174.4)**	**(2.2)**	**(176.6)**	(172.6)	(1.7)	(174.3)
Net trade receivables	**280.5**	**7.3**	**287.8**	289.9	4.7	294.6
Amounts owed by Group undertakings	**–**	**–**	**–**	0.2	–	0.2
Prepayments	**33.3**	**–**	**33.3**	27.5	–	27.5
Other receivables	**28.0**	**1.2**	**29.2**	36.8	0.3	37.1
	341.8	**8.5**	**350.3**	354.4	5.0	359.4
Current:						
Contract assets	**217.0**	**0.9**	**217.9**	185.8	0.4	186.2
	558.8	**9.4**	**568.2**	540.2	5.4	545.6
Total	**598.1**	**111.3**	**709.4**	579.6	62.1	641.7

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 31 March 2019 includes £101.9 million (2018: £56.7 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. The prepayment relates to use of the tunnel which will occur once construction is complete.

Contract assets at 31 March 2019 include £144.3 million (restated 2018: £124.0 million) of services provided to metered customers. The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173.

2 The prior year results have been restated following the reclassification of the insurance claims receivable from current to non-current, to be classified consistently with the non-current insurance provision. The receivable has been recognised as it is virtually certain that the amount will be paid to the Group.

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2019 £m	2018 £m
At 1 April	(174.3)	(176.4)
Charge for bad and doubtful debts – charged against revenue	(33.4)	(28.7)
Charge for bad and doubtful debts – included within operating expenses	(29.2)	(28.8)
Excess credits recognised during the year	(11.8)	(4.6)
Amounts directly charged to revenue and not included in bad debt expense	(3.9)	(2.3)
Amounts written off	76.0	66.5
Total at 31 March	(176.6)	(174.3)

The ageing of receivables which are past due but not impaired cannot be performed. Ageing of gross receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	243.9	295.9
1–2 years	131.7	77.2
2–3 years	38.1	44.0
More than 3 years	50.7	51.8
Total	464.4	468.9

The ageing of gross BTL receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	4.7	4.9
1–2 years	4.8	1.5
Total	9.5	6.4

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. An expected credit losses provision is recorded against assets which are past due but for which no individual provision is made. This is calculated based on historical experience of levels of recovery. Ageing of impaired receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	66.2	66.2
1–2 years	40.6	40.9
2–3 years	34.9	23.9
More than 3 years	34.9	43.3
Total	176.6	174.3

Ageing of impaired BTL receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	0.8	0.7
1–2 years	1.4	1.0
Total	2.2	1.7

15. Cash and cash equivalents

As at 31 March	2019			2018		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	5.6	0.3	5.9	4.2	0.1	4.3
Short-term deposits	148.8	7.3	156.1	100.2	2.5	102.7
Total	154.4	7.6	162.0	104.4	2.6	107.0

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

16. Trade and other payables

As at 31 March	2019			Restated[1] 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities[1]	**636.1**	**–**	**636.1**	589.9	–	589.9
Current:						
Trade payables – operating	**258.2**	**–**	**258.2**	184.9	–	184.9
Amounts owed to Group undertakings	**–**	**–**	**–**	0.3	–	0.3
Other taxation and social security	**7.5**	**–**	**7.5**	6.5	–	6.5
Amounts payable in respect of group relief	**3.0**	**4.4**	**7.4**	6.8	1.6	8.4
Accruals	**327.8**	**–**	**327.8**	334.3	–	334.3
Amounts owed to Bazalgette Tunnel Limited	**–**	**11.1**	**11.1**	–	3.5	3.5
Other payables	**82.4**	**–**	**82.4**	80.3	–	80.3
	678.9	**15.5**	**694.4**	613.1	5.1	618.2
Current:						
Contract liabilities[1]	**110.6**	**3.4**	**114.0**	125.3	4.1	129.4
	789.5	**18.9**	**808.4**	738.4	9.2	747.6
Total	**1,425.6**	**18.9**	**1,444.5**	1,328.3	9.2	1,337.5

Current contract liabilities at 31 March 2019 include £75.6 million (2018: £75.6 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2019 include £497.0 million (restated 2018: £481.2 million) of deferred infrastructure charges, £121.4 million of deferred income for nil cost "adopted" assets (2018: £89.1 million) with the remaining amount relating to payments received in advance for compensation for operating costs .

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173.

17. Borrowings

As at 31 March	**2019 £m**	2018 £m
Secured bank loans and private placements	**3,398.2**	2,824.6
Bonds	**8,219.4**	8,105.3
Amounts owed to Group undertakings	**5.5**	–
	11,623.1	10,929.9
Interest payable on borrowings	**158.7**	158.6
Total	**11,781.8**	11,088.5
Disclosed within non-current liabilities	**10,657.7**	10,822.2
Disclosed within current liabilities	**1,124.1**	266.3
Total	**11,781.8**	11,088.5

Secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiary, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Breakdown of secured bank loans and private placements

As at 31 March	2019 £m	2018 £m
THAMES WATER UTILITIES LIMITED		
£60.0m 1.230% index linked loan due 2019 (i)	78.8	76.8
£60.0m 1.415% index linked loan due 2020 (i)	78.5	76.6
£60.0m 1.513% index linked loan due 2020 (i)	78.1	76.2
£60.0m 1.380% index linked loan due 2020 (i)	77.9	76.0
£60.0m 1.356% index linked loan due 2020 (i)	77.9	76.0
£100.0m floating rate loan due 2020 (a), (c)	99.9	99.9
£75.0m 1.350% index linked loan due 2021 (e), (i)	89.2	87.0
£215.0m 0.460% index linked loan due 2023 (a), (i)	248.2	241.9
£215.0m 0.380% index linked loan due 2032 (a), (b), (i)	218.9	228.4
£100.0m 3.280% index linked loan due 2043 (a), (d), (i)	129.6	126.4
£100.0m 0.790% index linked loan due 2025 (a), (e), (i)	109.9	107.2
£125.0m 0.598% index linked loan due 2026 (a), (e), (i)	136.7	133.3
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	70.0	69.7
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	50.0	49.8
£20.0m Class B floating rate loan due 2026 (a)	20.0	19.9
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	38.4	38.8
$55.0m 3.380% private placement due 2023 (a), (f)	42.3	39.2
$285.0m 3.570% private placement due 2025 (a), (f)	218.9	202.8
£216.0m 2.450% private placement due 2028 (a)	215.4	215.3
£210.0m 2.550% private placement due 2030 (a)	209.3	209.2
£40.0m 2.620% private placement due 2033 (a)	39.8	39.8
£150.0m floating rate loan due 2024 (a)	149.5	–
THAMES WATER UTILITIES FINANCE PLC		
£245.0m 1.031% floating rate loan due 2019 (c), (g)	245.0	–
£214.3m 1.397% Class B floating rate loan due 2019 (c), (g)	214.3	–
$150.0m 3.870% private placement due 2022 (f)	115.5	–
$200.0m 4.020% private placement 2024 (f)	153.9	–
$250.0m 4.220% private placement due 2027 (f)	192.3	–
THAMES WATER UTILITIES CAYMAN FINANCE LIMITED (h)		
$150.0m 4.690% Class B private placement due 2019	–	106.7
$150.0m 3.870% private placement due 2022	–	106.9
$200.0m 4.020% private placement 2024	–	142.6
$250.0m 4.220% private placement due 2027	–	178.2
Total secured bank loans and private placements	3,398.2	2,824.6

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issue costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margins of these two loans are based on a ratings grid and vary depending on the senior debt credit rating of both Standard and Poor's and Moody's.
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(g) In March 2019, £245.0 million was drawn out of £1.4 billion Class A revolving credit facility and £214.3 million was drawn out of £214.3 million Class B revolving credit facility. Both amounts were repaid in April 2019.
(h) On 31 August 2018, the debt instruments previously held by TWUCF were transferred to TWUF.
(i) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

17. Borrowings continued

Breakdown of bonds

As at 31 March	2019 £m	2018 £m
THAMES WATER UTILITIES FINANCE PLC		
£200.0m 5.050 % fixed rate due 2020 (c)	200.0	200.0
£225.0m 6.590 % fixed rate due 2021	225.0	225.0
£175.0m 3.375 % index linked due 2021 (b), (d)	282.4	273.5
£330.0m 6.750 % fixed rate due 2028 (b)	327.5	327.4
£200.0m 6.500 % fixed rate due 2032 (b), (c)	197.8	197.7
£600.0m 5.125 % fixed rate due 2037 (b), (c)	596.5	596.5
£300.0m 1.680 % index linked due 2053 (b), (d)	435.3	421.6
£300.0m 1.681 % index linked due 2055 (b), (d)	435.3	421.6
€113.0m 2.300 % CPI index linked bond due 2022 (a), (c)	104.1	–
£300.0m 5.750 % Class B fixed rate bond due 2030 (b), (e)	298.1	–
£300.0m 4.375 % fixed rate bond due 2034 (b)	295.6	–
¥20.0bn 3.280 % fixed rate bond due 2038 (a), (b), (c)	139.0	–
£50.0m 3.853 % index linked bond due 2040 (d)	64.9	–
£500.0m 5.500 % fixed rate bond due 2041 (b)	489.8	–
£50.0m 1.980 % index linked bond due 2042 (d)	68.9	–
£55.0m 2.091 % index linked bond due 2042 (b), (d)	72.8	–
£40.0m 1.974 % index linked bond due 2045 (b), (d)	46.3	–
£300.0m 4.625 % fixed rate bond due 2046 (b)	293.3	–
£100.0m 1.846 % index linked bond due 2047 (d)	137.8	–
£200.0m 1.819 % index linked bond due 2049 (b), (d)	275.2	–
£200.0m 1.771 % index linked bond due 2057 (b), (d)	275.2	–
£350.0m 1.760 % index linked due 2062 (b), (d)	481.5	–
£500.0m 4.000 % fixed rate due 2025 (b)	495.9	–
£40.0m 0.750 % index linked loan due 2034 (b), (d)	43.5	–
£45.0m 0.721 % index linked loan due 2027 (b), (d)	48.9	–
£300.0m 3.500 % fixed rate loan due 2028 ((b)	296.6	–
£400.0m 7.738 % fixed rate bond due 2058 (b)	419.9	–
£250.0m 1.875 % fixed rate bond due 2024 (b)	248.1	–
£250.0m 2.625 % fixed rate bond due 2032 (b)	247.4	–
£300.0m 2.375 % Class B fixed rate bond due 2023 (b)	298.8	–
£250.0m 2.875 % Class B fixed rate bond due 2027 (b)	246.9	–
CAD 250.0m 2.875 % fixed rate bond due 2024 (a), (b)	142.3	–
Fees (f)	(11.2)	–
THAMES WATER UTILITIES CAYMAN FINANCE LIMITED (g)		
€113.0m 2.300 % CPI index linked bond due 2022	–	104.6
£300.0m 5.750 % Class B fixed rate bond due 2030	–	297.8
£300.0m 4.375 % fixed rate bond due 2034	–	295.5
¥20.0bn 3.280 % fixed rate bond due 2038	–	134.2
£50.0m 3.853 % index linked bond due 2040	–	63.3
£500.0m 5.500 % fixed rate bond due 2041	–	489.6
£50.0m 1.980 % index linked bond due 2042	–	67.1
£55.0m 2.091 % index linked bond due 2042	–	71.0
£40.0m 1.974 % index linked bond due 2045	–	46.3
£300.0m 4.625 % fixed rate bond due 2046	–	293.1
£100.0m 1.846 % index linked bond due 2047	–	134.2
£200.0m 1.819 % index linked bond due 2049	–	267.9

Breakdown of bonds continued

As at 31 March	2019 £m	2018 £m
£200.0m 1.771 % index linked bond due 2057	–	267.9
£350.0m 1.760 % index linked due 2062	–	468.8
£500.0m 4.000 % fixed rate due 2025	–	495.3
£40.0m 0.750 % index linked loan due 2034	–	42.4
£45.0m 0.721 % index linked loan due 2027	–	47.7
£300.0m 3.500 % fixed rate loan due 2028	–	296.3
£400.0m 7.738 % fixed rate bond due 2058	–	394.1
£250.0m 1.875 % fixed rate bond due 2024	–	247.8
£250.0m 2.625 % fixed rate bond due 2032	–	247.2
£300m 2.375 % Class B fixed rate bond due 2023	–	298.5
£250m 2.875 % Class B fixed rate bond due 2027	–	246.6
CAD 250.0m 2.875 % fixed rate bond due 2024	–	136.3
Fees	–	(11.5)
Total bonds	**8,219.4**	**8,105.3**

All bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(b) These bonds are shown net of issue costs.
(c) The Group has entered into swap agreements that convert this debt into £ index-linked debt.
(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").
(e) In September 2022 this Class B bond has a "Step Up and Call" meaning the interest rate changes to three months LIBOR plus 7.97 % at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
(f) These fees have been shown within bonds to reflect that they relate to index linked debt issued in 2007.
(g) On 31 August 2018, the debt instruments previously held by TWUCF were transferred to TWUF.

Amounts owed to Group undertakings

As at 31 March	2019 £m	2018 £m
THAMES WATER LIMITED		
£0.3m floating rate loan due 2043	**0.3**	–
THAMES WATER UTILITIES HOLDINGS LIMITED		
£5.2m floating rate loan due 2043	**5.2**	–
Total owed to Group undertakings	**5.5**	–

18. Financial instruments

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Group are as follows:

Financial assets:

As at 31 March	2019 £m	2018 £m
Fair value through profit and loss		
Index linked swaps	**78.5**	71.7
Interest rate swaps	**10.7**	–
Cross currency swaps	**73.1**	13.2
	162.3	84.9
Amortised cost		
Intercompany loans receivable	**2,002.0**	1,977.9
Other receivables (excluding prepayments)	**39.3**	39.4
Trade and other receivables (excluding prepayments)	**316.9**	304.4
Cash and cash equivalents	**162.0**	107.0
	2,520.2	2,428.7
Total	**2,682.5**	2,513.6

Notes to the consolidated financial statements continued

18. Financial instruments continued

Financial liabilities:

As at 31 March	2019 £m	2018 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	**(60.0)**	(69.6)
Interest rate swaps – not hedge accounted	**(180.7)**	(176.2)
Index linked swaps – not hedge accounted	**(995.5)**	(947.1)
Derivatives designated as hedging instruments		
Forward starting interest rate swaps – cash flow hedges	**(26.2)**	(45.3)
	(1,262.4)	(1,238.2)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(686.9)**	(606.6)
Borrowings	**(11,781.8)**	(11,088.5)
	(12,468.7)	(11,695.1)
Total	**(13,731.1)**	(12,933.3)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2019:

	Level 2[1]	
As at 31 March	2019 £m	2018 £m
Financial assets – derivative financial instruments		
Index linked swaps	**78.5**	71.7
Interest rate swaps	**10.7**	–
Cross currency swaps	**73.1**	13.2
	162.3	84.9
Financial liabilities – derivative financial instruments		
Cross currency swaps	**(60.0)**	(69.6)
Interest rate swaps	**(180.7)**	(176.2)
Index linked swaps	**(995.5)**	(947.1)
Forward starting interest rate swaps	**(26.2)**	(45.3)
	(1,262.4)	(1,238.2)
Net total	**(1,100.1)**	(1,153.3)

1 The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps and index linked swaps is measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates, inflation rates and discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. £300.0 million of these swaps commenced during the year (2018: £800.0 million). On commencement these swaps were reclassified from forward starting interest rate swaps to interest rate swaps. The fair value movements till commencement were recognised on cash flow hedge reserve. Subsequent to commencement the fair value movement on these swaps has been recognised as changes in fair value through the income statement and the cash flow hedge has been discontinued prospectively. During the year, a £8.9 million loss (2018: gain of £16.3 million) was recognised on cash flow hedge reserve and £34.2 million (2018: £84.3 million) was recycled from cash flow hedge reserve to income statement, see "Statement of changes in equity". The loss of £34.2 million consisted of £27.4 million loss related to hedged exposure that crystallised during the year and a £6.8 million loss due to hedge accounting discontinuation.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Group's trade and other receivables, contract assets, cash and cash equivalents, trade and other payables and contract liabilities are considered to be approximate to their fair values. The fair values and carrying values of the Group's other financial assets and financial liabilities are set out in the tables below.

Financial assets:

As at 31 March	2019		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Intercompany loans receivable	**1,974.7**	**1,974.7**	1,974.7	1,974.7
Derivative financial instruments				
Cross currency swaps	**73.1**	**73.1**	4.7	4.7
Index linked swaps	**78.5**	**78.5**	71.7	71.7
Interest rate swaps	**10.7**	**10.7**	–	–
	2,137.0	**2,137.0**	2,051.1	2,051.1
Current				
Cash and cash equivalents	**162.0**	**162.0**	107.0	107.0
Short-term investments	**–**	**–**	–	–
Derivative financial instruments	**–**	**–**	8.5	8.5
Amounts owed by Group undertakings	**27.3**	**27.3**	3.2	3.2
	189.3	**189.3**	118.7	118.7
Total	**2,326.3**	**2,326.3**	2,169.8	2,169.8

Financial liabilities:

As at 31 March	2019		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	**(2,433.9)**	**(2,670.4)**	(2,718.0)	(2,932.9)
Bonds	**(8,218.4)**	**(10,562.5)**	(8,104.3)	(10,553.6)
Amounts owed to Group undertakings	**(5.5)**	**(5.5)**	–	–
Derivative financial instruments				
Cross currency swaps	**(60.0)**	**(60.0)**	(69.6)	(69.6)
Interest rate swaps	**(180.7)**	**(180.7)**	(176.2)	(176.2)
Index linked swaps	**(956.9)**	**(956.9)**	(934.8)	(934.8)
Forward starting interest rate swaps	**(26.2)**	**(26.2)**	(45.3)	(45.3)
	(11,881.6)	**(14,462.2)**	(12,048.2)	(14,712.4)
Current				
Borrowings				
Secured bank loans and private placements	**(964.3)**	**(977.7)**	(106.7)	(108.2)
Bonds	**(1.0)**	**(1.0)**	(1.0)	(1.0)
Interest payable	**(158.7)**	**(158.7)**	(158.6)	(158.6)
Derivative financial instruments				
Index linked swaps	**(38.6)**	**(38.6)**	(12.3)	(12.3)
	(1,162.6)	**(1,176.0)**	(278.6)	(280.1)
Total	**(13,044.2)**	**(15,638.2)**	(12,326.8)	(14,992.5)

18. Financial instruments (continued)

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds and associated derivatives. For private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Group's credit spread.

The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and adjusted for credit risk if this is significant. The fair value of index linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity. Amounts owed by Group entities include floating rate loans, the fair value of these loans is assumed to be the nominal value of the primary loan.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity;
- To retain the Company's investment grade credit rating;
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis; and
- To maintain customer bills at a level which is both affordable and sustainable.

Derivative financial instruments are used, where appropriate, to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The Group guarantees the funding activity of TWUF which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- An interest cover ratio;
- A gearing ratio;
- An obligation to manage the maturity profile of debt arrangements; and
- An obligation to manage the proportion of future interest cost which is fixed and/or index linked.

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Group consists of net debt and equity as follows:

As at 31 March	**2019 £m**	2018 £m
Secured bank loans and private placements	**(3,398.2)**	(2,824.6)
Bonds	**(8,219.4)**	(8,105.3)
Amounts owed to Group undertakings	**(5.5)**	–
Interest payable on borrowings	**(158.7)**	(158.6)
	(11,781.8)	(11,088.5)
Cash and cash equivalents	**162.0**	107.0
Net debt (statutory basis)	**(11,619.8)**	(10,981.5)
Reconciliation to net debt (covenant basis)		
Interest payable on borrowings	**158.7**	158.6
Amounts owed to Group undertakings	**5.5**	–
Unamortised debt issuance costs and discount	**(75.6)**	(79.5)
Derivative financial liabilities	**(222.0)**	(237.8)
IFRS 9 transition adjustment[1]	**25.8**	–
Net debt (covenant basis)	**(11,727.4)**	(11,140.2)
Equity attributable to owners of the Group	**2,787.1**	2,777.3[1]

1 The impact of the transition to new accounting standard IFRS 9 "Financial Instruments" on 1 April 2018 is discussed on page 174.

Net debt (covenant basis) excludes accrued interest, amounts owed to Group undertakings, unamortised debt issuance costs and discounts, and IFRS 9 transition adjustment, and includes derivative financial liabilities related solely to accretion on index linked swaps and the effect of movement in foreign exchange rate to cross currency swaps held in the Group.

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

As at 31 March	2019		2018	
	Borrowings £m	**Derivative financial liabilities £m**	Borrowings £m	Derivative financial liabilities £m
Opening balance	**(11,088.5)**	**(1,238.2)**	(10,551.7)	(1,421.8)
Non-current	**(10,822.2)**	**(1,225.9)**	(10,209.4)	(1,398.0)
Current	**(266.3)**	**(12.3)**	(342.3)	(23.8)
Cash flows				
New loans raised	**(1,148.8)**	**–**	(2,239.2)	–
Repayment of borrowings	**669.5**	**–**	1,799.8	–
Derivative paydown	**–**	**(2.8)**	–	28.4
Interest paid[1]	**382.7**	**–**	351.7	–
Interest received	**–**	**(8.5)**	–	(8.5)
	(96.6)	**(11.3)**	(87.8)	19.9
Non-cash changes				
Interest accrued/fees amortised	**(387.3)**	**8.9**	(373.1)	9.2
Foreign exchange movement	**(68.0)**	**–**	72.6	–
Indexation	**(110.1)**	**–**	(148.6)	–
IFRS 9 adjustments	**(25.8)**	**–**	–	–
Fair value changes	**–**	**(21.8)**	–	154.5
Amounts owed to Group undertakings	**(5.5)**	**–**	–	–
	(596.7)	**(12.9)**	(449.0)	163.7
Closing balance	**(11,781.8)**	**(1,262.4)**	(11,088.5)	(1,238.2)
Non-current	**(10,657.7)**	**(1,223.8)**	(10,822.2)	(1,225.9)
Current	**(1,124.1)**	**(38.6)**	(266.3)	(12.3)

1 Interest paid of £382.7 million (2018: £351.7 million) includes £109.3 million of capitalised borrowing costs (2018: £100.7 million) and excludes £0.4 million of bank charges (2018: £0.3 million).

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk and excludes £250.0 million (2018: £550.0 million) forward starting swaps which will commence after the year ended 31 March 2019:

As at 31 March 2019	**Total at fixed rates £m**	**Total at floating rates £m**	**Total at RPI linked rates £m**	**Total m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
• £ Sterling	**5,660.8**	**635.1**	**5,524.7**	**11,820.6**

As at 31 March 2018	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
• £ Sterling	5,679.6	93.4	5,394.9	11,167.9

18. Financial instruments (continued)

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below and excludes £250.0 million (2018: £550.0 million) forward starting swaps which will commence after the year ended 31 March 2019:

As at 31 March	Weighted average interest rate		Weighted average period until maturity	
	2019 %	2018 %	**2019 Years**	2018 Years
Fixed	**5.1**	4.9	**11.6**	12.5
Index-linked	**4.5**	5.7	**21.1**	21.9

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the cash flow hedges section of this note on page 204.

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2019. This analysis considers the effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2019 +1% £m**	**2019 +1% £m**	2018 +1% £m	2018 +1% £m
Profit	**277.7**	**(340.7)**	279.3	(330.8)
Equity	**290.4**	**(353.6)**	303.5	(356.9)

(ii) Exchange rate sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table overleaf summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2019. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	**2019 +10% £m**	**2019 -10% £m**	2018 +10% £m	2018 -10% £m
Profit	**(20.9)**	**8.4**	(5.4)	2.0
Equity	**(20.9)**	**8.4**	(5.4)	2.0

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2019. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2019 +1% £m**	**2019 -1% £m**	2018 +1% £m	2018 -1% £m
Profit	**(635.7)**	**511.4**	(607.3)	515.1
Equity	**(635.7)**	**511.4**	(607.3)	515.1

(b) Credit risk

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

The Group has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk; however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16. For non-household customers, the credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to conditions that exist within the non-household market.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral cash held under the terms of the whole business securitisation agreement. The following table summarises amounts held on short-term investments by credit rating of counterparties.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2019 £m	2018 £m
AA-	38.2	8.1
A+	88.1	60.9
A	36.0	15.9
Total	**162.3**	84.9

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings are disclosed in Note 17.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position is given below.

As at 31 March	2019 £m	2018 £m
Within one year	965.4	121.6
Between one and two years	214.9	496.3
Between two and three years	727.0	214.9
Between three and four years	161.3	707.3
Between four and five years	1,113.4	158.7
After more than five years	8,441.1	9,231.1
Total	**11,623.1**	10,929.9

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March	2019 £m	2018 £m
Within one year	2,050.4	1,113.3
Between one and two years	586.5	903.6
Between two and three years	1,134.4	581.9
Between three and four years	511.4	1,124.6
Between four and five years	1,513.9	526.8
After more than five years	20,172.7	21,514.8
Total	**25,969.3**	25,765.0

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March	2019 £m	2018 £m
Within one year	(46.9)	5.2
Between one and two years	(19.5)	(48.4)
Between two and three years	24.9	(15.7)
Between three and four years	(68.6)	17.7
Between four and five years	(137.4)	(48.4)
After more than five years	(1,521.5)	(1,690.0)
Total	(1,769.0)	(1,779.6)

18. Financial instruments (continued)

Cash flow hedges

The Group has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 170.

In mid-2014 the Group executed £2.25 billion of forward-starting fixed to floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. This protects the Group against adverse movements in underlying interest rates by matching debt issuance against a derivative instrument with fixed cash flow.

During the year, £300.0 million (2018: £800.0 million) of forward starting swaps commenced. These were reclassified from forward starting interest rate swaps to interest rate swaps and the cash flow hedge for these swaps has been discontinued prospectively, see Fair value measurements section above for more details. On commencement, the fair value of these swaps was £28.0 million, which included £21.2 million recognised on the cash flow hedge reserve and £6.8 million recycled to the income statement.

The Group's cash flow hedge reserve disclosed on the statement of changes in equity on page 159 relate to forward starting interest rate swaps.

As at 31 March	**2019 £m**	2018 £m
At 1 April 2018	**(138.9)**	(222.4)
Loss on cash flow hedge	**(8.9)**	16.3
Cash flow hedge transferred to income statement	**34.2**	84.3
Deferred tax	**(4.3)**	(17.1)
At 31 March 2019	**(117.9)**	(138.9)

Following are the effects of forward starting interest rate swaps on the Group's financial position and performance:

As at 31 March	**2019 £m**	2018 £m
Carrying amount	**26.2**	45.3
Notional amount	**250.0**	550.0
Maturity date	**September 2024**	March 2024 (£300.0 million) September 2024 (£250.0 million)
Hedge ratio	**1:1**	1:1
Change in fair value during the year	**5.5**	8.1
Change in the value of hedged item used to determine hedge effectiveness	**5.6**	8.3

The expected cash flows of the Group's cash flow hedging instruments are as follows:

As at 31 March	**2019 £m**	2018 £m
Interest rate swaps		
Within one year	**(2.4)**	–
Between one and two years	**(4.9)**	(6.5)
Between two and three years	**(4.9)**	(8.4)
Between three and four years	**(4.9)**	(8.4)
Between four and five years	**(4.9)**	(8.4)
After more than five years	**(2.4)**	(10.4)
Total	**(24.4)**	(42.1)

19. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

		Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other £m	**Total £m**
Restated[1,2]	At 1 April 2017	(1,041.8)	51.7	195.3	10.0	**(784.8)**
	Charge to income	(8.4)	(1.2)	(19.4)	(0.9)	**(29.9)**
	Charge to other comprehensive income (restated)	–	(17.1)	(17.1)	–	**(34.2)**
Restated[1,2]	At 31 March 2018	(1,050.2)	33.4	158.8	9.1	**(848.9)**
	Restatement for IFRS 9[1]	–	–	–	4.5	**4.5**
	Credit/(charge) to income	(1.0)	3.8	(3.4)	(4.0)	**(4.6)**
	Credit/(charge) to other comprehensive income	–	4.3	(4.3)	–	**–**
	At 31 March 2019	(1,051.2)	41.5	151.1	9.6	**(849.0)**

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months are as follows:

As at 31 March	**2019 £m**	Restated[1] 2018 £m
Deferred tax asset	**202.2**	201.3
Deferred tax liability	**(1,051.2)**	(1,050.2)
Total	**(849.0)**	(848.9)

1 The impact of the transition to new accounting standards, IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 is discussed on pages 170–174.
2 The impact of the change in accounting policy for the TWMIPS pension scheme surplus is discussed on pages 175–177.

A deferred tax liability arises in respect of accelerated tax depreciation, because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Group mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is provided on the retirement benefit obligations booked in the accounts. The £41.5m deferred tax asset carried forward is the net of an asset of £57.5m (17% of the deficit on the TWPS pension scheme of £338.8m) less a liability of £16.0m (35% of the surplus on the MIPS pension scheme of £45.8m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations; for example, those arising from actuarial valuations.
- Cash flow hedge: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax relief is available in accordance with the legislation.

Strategic report
Governance
Financial statements
Annual performance report

20. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Capital infrastructure provision £m	Other provisions £m	**Total £m**
At 1 April 2018	5.7	63.6	21.8	42.0	**133.1**
Utilised/released during the period	(5.7)	(15.2)	–	(8.0)	**(28.9)**
Charge/(credit) to income statement	4.6	10.9	–	(9.9)	**5.6**
Charge/(credit) to capital project	–	–	(1.3)	–	**(1.3)**
Transfer from current liabilities	–	–	–	0.5	**0.5**
At 31 March 2019	4.6	59.3	20.5	24.6	**109.0**

Emissions provisions relate to the obligation to purchase carbon emissions allowances.

The insured liability provision arises from insurance claims from third parties received by the Group, and represents the estimated cost of settlement. Where we have insurance cover for these claims, we recognise the reimbursement value from captive and third party insurance companies net of retentions. The receivable is disclosed in Note 14. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The capital infrastructure provision is to cover various potential third party costs arising from the construction of infrastructure assets.

Other provisions principally relate to a number of contractual and legal claims against the Group and potential fines for non-compliance with various regulations the Group is obliged to meet. The amount recorded represents management's best estimate of the value of settlement and associated costs. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The Group needs to determine the merit of any litigation against it and the chances of a claim successfully being made, the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment.

There are claims against the Group arising in the normal course of business, which are in the process of negotiation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

21. Share capital and other reserves

Share capital

As at 31 March	**2019**			2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Allotted, called up and fully paid:						
29,050,000 ordinary shares of £1 each (2018: 29,050,000 ordinary shares of £1 each)	**29.0**	**–**	**29.0**	29.0	–	29.0

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

As at 31 March	**2019**			Restated[1] 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Share premium	**100.0**	**–**	**100.0**	100.0	–	100.0
Cash flow hedge reserve	**(117.9)**	**–**	**(117.9)**	(138.9)	–	(138.9)
Revaluation reserve	**989.3**	**–**	**989.3**	1,021.2	–	1,021.2
Retained earnings	**1,686.7**	**100.0**	**1,786.7**	1,710.5	55.5	1,766.0
Total	**2,658.1**	**100.0**	**2,758.1**	2,692.8	55.5	2,748.3

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

22. Retirement benefit obligations

Background

The Group operates two defined benefit pension schemes and one defined contribution pension scheme.

	What are they?	How do they impact the financial statements?
Defined contribution scheme This scheme was set up in April 2011, is managed through Standard Life, and is open to all new employees of the Company.	In a defined contribution pension scheme the benefits are linked to: • contributions paid; • the performance of the individual's chosen investments; and • the form of benefits.	A charge of £11.0 million (2018: £8.1 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay. There were £1.5 million (2018: £1.1 million) of outstanding contributions at the year end recognised in the statement of financial position. These were paid in the following financial year. The Group has no exposure to investment or other experience risks.
Defined benefit schemes Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit pension schemes: • Thames Water Pension Scheme ("TWPS"); and • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both now are career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the pension trustees. TWMIPS has been closed to new entrants since 1989 and TWPS since April 2011. New entrants now join the defined contribution scheme.	In a defined benefit pension scheme the benefits: • are defined by the scheme rules; • depend on a number of factors including age, years of service and pensionable pay; and • do not depend on contributions made by the members or the Company.	A charge was recognised in the income statement of £41.3 million (restated 2018: £36.1 million) relating to the following: • Service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period. • Past service cost representing the increase in the defined benefit liability arising from GMP equalisation. • Administrative expenses for the pension schemes. • The net interest expense on pension scheme assets and liabilities. An actuarial loss of £23.4 million (restated 2018: gain of £87.0 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic of the scheme members when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense. A pension asset of £45.8 million (restated 2018: £50.6 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £338.8 million (2018: £300.8 million) is recognised in the statement of financial position for the TWPS scheme. As at 31 March 2019, the net pension deficit is £293.0 million (restated 2018: £250.2 million). The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.

In addition to the cost of the defined benefit pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2019, these related payments amounted to £0.1 million (2018: £0.5 million).

The defined benefit pension schemes are subject to a full actuarial valuation every three years using assumptions agreed between the trustees of the pension schemes and the Group. The purpose of this triennial valuation is to evaluate and if necessary modify the funding plans of the pension schemes to ensure the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2016 on behalf of the trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the two schemes of £364.9 million (2013: £288.3 million) with the market value of the assets being £1,905.5 million (2013: £1,699.8 million).

The triennial funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from 31 March 2016 to 31 March 2019. The 2016 funding valuation has been updated to an accounting valuation as at 31 March 2019 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 *Employee Benefits* and shown in this note to the financial statements.

22. Retirement benefit obligations continued

Amounts recognised in the financial statements

Income statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

Year ended 31 March	2019		Restated[1] 2018	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Current service cost	18.1	3.6	19.4	3.8
Past service cost including curtailments[2]	6.8	2.2	–	–
Scheme administration expenses	2.7	1.3	2.7	1.2
Net interest cost/(income)	7.9	(1.3)	9.5	(0.5)
Total	35.5	5.8	31.6	4.5

The net expense is recognised in the following captions within the income statement:

Year ended 31 March	2019		Restated[1] 2018	
	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Operating expenses	27.6	7.1	22.1	5.0
Net finance expense/(income)	7.9	(1.3)	9.5	(0.5)
Total	35.5	5.8	31.6	4.5

1 In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted only of the TWPS scheme. Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. As a result, the Group and Company have recognised the surplus for the TWMIPS scheme and have restated the comparative periods. Refer to pages 167–168 for the adjustments to the comparative periods.

2 Refer to the GMP equalisation section below for information on the past service costs including curtailments.

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

As at 31 March	2019 £m	Restated[1] 2018 £m
Actual return less expected return on pension scheme assets	76.5	2.7
Experience gain/(loss) arising on scheme liabilities	1.3	(10.9)
(Loss)/gain arising due to change in financial assumptions	(158.0)	66.6
Gain arising due to change in demographic assumptions	56.8	28.6
Total actuarial (loss)/gain	(23.4)	87.0
Cumulative actuarial losses recognised	(495.1)	(471.7)

Statement of financial position

The net pension liability recognised within the statement of financial position is as follows:

As at 31 March	2019			Restated[1] 2018		
	TWPS £m	TWMIPS £m	Total £m	TWPS £m	TWMIPS £m	Total £m
Fair value of scheme assets	1,508.2	805.2	2,313.4	1,442.9	805.6	2,248.5
Present value of defined benefit obligations	(1,847.0)	(759.4)	(2,606.4)	(1,743.7)	(755.0)	(2,498.7)
(Deficit)/surplus	(338.8)	45.8	(293.0)	(300.8)	50.6	(250.2)
Net pension deficit			(293.0)			(250.2)

1 In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted only of the TWPS scheme. Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. As a result, the Group and Company have recognised the surplus for the TWMIPS scheme and have restated the comparative periods. Refer to pages 167–168 for the adjustments to the comparative periods.

2 Refer to the GMP equalisation section below for information on the past service costs including curtailments.

Reconciliation of defined benefit plan assets and liabilities

The movement in the present value of the defined benefit obligations were as follows:

	2019		Restated 2018	
	TWPS £m	**TWMIPS £m**	TWPS £m	TWMIPS £m
At 1 April	**1,743.7**	**755.0**	1,776.2	806.8
Current service cost	**18.1**	**3.6**	19.4	3.8
Past service cost including curtailments	**6.8**	**2.2**	–	–
Interest cost	**45.7**	**19.1**	46.4	20.1
Contributions from scheme members	**0.1**	**–**	0.4	–
Benefits paid	**(47.9)**	**(40.0)**	(52.8)	(37.8)
Termination benefits	**0.1**	**–**	0.5	—
Actuarial losses/(gains)	**80.4**	**19.5**	(46.4)	(37.9)
At 31 March	**1,847.0**	**759.4**	1,743.7	755.0

The movements in the fair value of scheme assets were as follows:

	2019		2018	
	TWPS £m	**TWMIPS £m**	TWPS £m	TWMIPS £m
At 1 April	**1,442.9**	**805.6**	1,411.4	828.5
Interest income on scheme assets	**37.8**	**20.4**	36.9	20.6
Contributions by sponsoring employers	**18.8**	**3.1**	41.3	0.7
Contributions from scheme members	**0.1**	**–**	0.4	–
Administration costs paid from scheme assets	**(2.7)**	**(1.3)**	(2.7)	(1.2)
Benefits paid	**(47.9)**	**(40.0)**	(52.8)	(37.8)
Contributions for termination benefits	**0.1**	**–**	0.5	–
Gains/(losses) on assets above interest	**59.1**	**17.4**	7.9	(5.2)
At 31 March	**1,508.2**	**805.2**	1,442.9	805.6

Analysis of assets

As at 31 March

	2019				2018			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total (%)**	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	**33.5**	**–**	**33.5**	**1.4**	34.8	–	34.8	1.5
Rest of World	**335.9**	**2.2**	**338.1**	**14.6**	344.0	1.8	345.8	15.4
Private Equity	**–**	**–**	**–**	**–**	–	1.1	1.1	–
Bonds								
Government – UK	**21.2**	**–**	**21.2**	**0.9**	34.8	–	34.8	1.5
Government – Rest of World	**203.8**	**–**	**203.8**	**8.8**	195.3	–	195.3	8.7
Corporates – UK	**10.0**	**–**	**10.0**	**0.4**	9.4	–	9.4	0.4
Corporates – Rest of World	**215.5**	**–**	**215.5**	**9.3**	193.6	–	193.6	8.6
Property								
UK	**6.2**	**1.4**	**7.6**	**0.3**	5.7	103.4	109.1	4.9
Rest of world	**4.4**	**–**	**4.4**	**0.2**	3.9	–	3.9	0.2
Alternative assets								
Liability driven instruments	**1,262.4**	**–**	**1,262.4**	**54.6**	1,105.5	–	1,105.5	49.2
Other (including derivatives)	**113.1**	**2.4**	**115.5**	**5.0**	106.5	3.1	109.6	4.9
Cash	**101.4**	**–**	**101.4**	**4.4**	105.6	–	105.6	4.7
Total market value of assets	**2,307.4**	**6.0**	**2,313.4**	**100.0**	2,139.1	109.4	2,248.5	100.0

22. Retirement benefit obligations continued

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Willis Towers Watson. 54.6% of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

IAS 19 assumptions

The approach used to set the IAS 19 assumptions is detailed below:

	Approach to set the assumptions
Discount rate	As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The TWPS and TWMIPS discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2019.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows of TWPS and TWMIPS with an adjustment made for an inflation risk premium.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	Both defined benefit schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI, therefore an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

The main assumptions used in the valuation of these schemes are as follows:

As at 31 March	2019		2018	
	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	3.25%	3.30%	3.15%	3.15%
Price inflation – CPI	2.25%	2.30%	2.15%	2.15%
Rate of increase to pensions in payment – RPI	3.25%	3.30%	3.15%	3.15%
Rate of increase to pensions in payment – CPI	2.25%	2.30%	2.15%	2.15%
Discount rate	2.40%	2.35%	2.65%	2.60%

As at 31 March	2019		2018	
	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	26.9	26.0	27.4	26.6
Female	28.9	28.5	29.4	29.0
Life expectancy from age 60 currently age 40:				
Male	28.4	27.6	29.0	28.1
Female	30.5	30.1	31.0	30.6

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk.

	Definition of risk
Investment risk	Assumptions are made about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then additional contributions will need to be made to the schemes in order to fund the payment of future benefits.
Discount rate risk	A fall in AA-rated corporate bond yields, which are used to set the discount rate, will increase the value of the scheme's liabilities. This may be partially offset by an increase in the value of the scheme's bond holdings.
Inflation risk	The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. Additionally, the Company's contributions to the schemes are based on assumptions about the future levels of inflation. Therefore, an increase in inflation above that assumed in the actuarial calculations will create a deficit.
Longevity risk	An increase in the life expectancy of scheme members will result in benefits being paid out for longer, leading to an increase in the defined benefit schemes' liabilities.

The sensitivity of the present value of scheme liabilities to changes in the principal assumptions used is set out below:

As at 31 March	**2019**		2018	
	TWPS £m	**TWMIPS £m**	TWPS £m	TWMIPS £m
Change in assumptions resulting in a decrease in liabilities				
Change in discount rate (+1% p.a.)	**325.0**	**90.0**	315.0	90.0
Change in rate of inflation (-1% p.a.)	**210.0**	**75.0**	205.0	75.0
Change in life expectancy (-1 year)	**75.0**	**30.0**	70.0	30.0

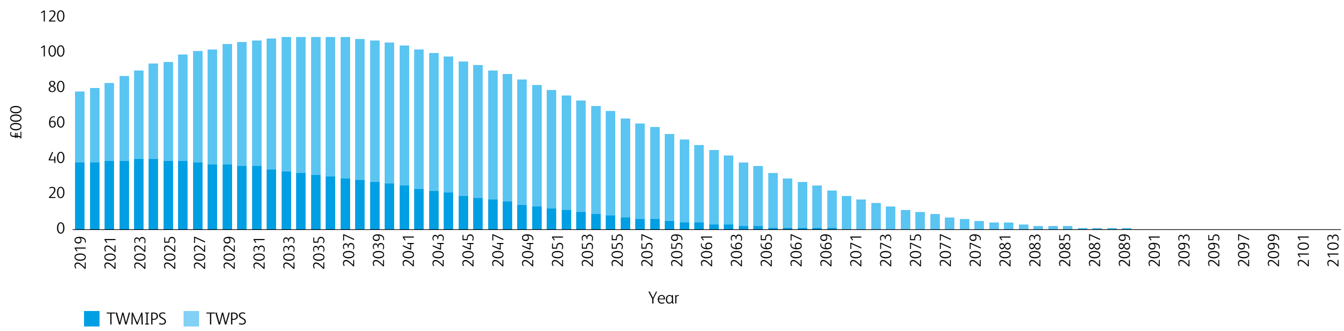
Future expected cash flows

The Group made a pension deficit repair payment of £22.7 million on 1 April 2019 in relation to 2018/19 having made a similar payment of £22.0 million on 31 March 2018 in relation to 2017/18. The Group expects to contribute approximately £22.8 million in aggregate to the defined benefit pension schemes in the next financial year. The average duration of the benefit obligation at the end of the year is 20 years for TWPS and 13 years for TWMIPS (2018: 20 years for TWPS and 13 years for TWMIPS).

In June 2017, the funding valuation as at 31 March 2016 was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2020	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	22.8	23.1	23.3	23.5	23.7	24.0	24.2	17.9

The expected cash flows payable from the schemes are presented in the graph below:



The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2016. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

22. Retirement benefit obligations continued

GMP equalisation

Background

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. Guaranteed Minimum Pensions ("GMPs") built up in our pension schemes between their commencement and 5 April 1997. They form a part of the overall pension and needed to be provided before April 1997 as a condition of our opting out of the earnings related part of the state pension, as a result of which Thames Water and the pension scheme members paid reduced rate national insurance contributions up to April 2016. GMPs are subject to increase in payment and in deferment at different rates from the increases to benefits in excess of GMPs.

Even though state pension ages are now the same for men and women, GMPs for women are generally higher than those for men. Despite the equalisation of state pension ages, GMPs are still required to come into payment on the 60th birthday for women and the 65th birthday for men. As such, GMPs are unequal between men and women of identical ages, salary histories and periods of service. The Lloyds case requires this inequality to be remedied and has given rise to additional pension liabilities for the Group.

The relevant standard for this is IAS 19 "Employee Benefits", and so the adjustment will be treated prospectively in the income statement as a past service cost from when the change to the scheme rules occurred on 26 October 2018.

Adjustments

The Lloyds Banking Group judgement requires pension schemes to equalise overall benefits (including the GMPs) for men and women, which necessarily involves a "levelling up" of excess benefits and hence additional costs. The actuary of our pension schemes at Aon Hewitt concluded that the cost of this equalisation is 0.4% of liabilities for TWPS and 0.3% of liabilities for TWMIPS.

Our actuaries, Hymans Robertson LLP, have factored in the cost of equalisation into the accounting valuation as at 31 March 2019. This has resulted in a past service cost recognised in the 2018/19 income statement of £6.8 million for TWPS and £2.2 million for TWMIPS, a total of £9.0 million across the two schemes.

23. Capital commitments

As at 31 March

	2019 £m	2018 £m
Property, plant and equipment	**395.7**	377.2
Intangible assets	**17.2**	15.3
Total contracted for but not provided	**412.9**	392.5

In addition to these commitments, the Group has long-term capital investment plans, under its Business Plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network.

24. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable, or cannot be measured reliably.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 18. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

25. Operating leases

Lease payments under operating leases of £13.4 million (2018: £10.8 million) were recognised as an expense in the year.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

As at 31 March	**2019 £m**	2018 £m
Within one year	**10.7**	10.0
Between one and five years	**37.9**	34.6
After more than five years	**56.2**	67.0
Total	**104.8**	111.6

Operating lease payments represent rentals payable by the Group for certain office properties, and plant and equipment. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is probable that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature and the Group has the ability to mutually agree changes to the arrangement with the lessor.

26. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Group is part of a Whole Business Securitisation Group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary, Thames Water Utilities Finance plc are Obligators under the Whole Business Securitisation entered into in 2007. The Obligators have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligator will guarantee the obligations of each other Obligator with their future cash flows. The guaranteed debt as at 31 March 2019 was £11.9 billion (2018: £11.2 billion).

27. Post balance sheet events

Intercompany loans receivable

On 29 April 2019, the Kemble Water Holdings Group performed an exercise to reduce the intercompany loan that exists between the Company and its immediate holding company Thames Water Utilities Holdings Limited. The exercise was performed to improve the financial resilience of the Company.

The paydown has led to a reduction in the intercompany loan receivable by £249.8 million with a corresponding increase in cash, of which £222.5 million is in respect of the principal loan receivable and £27.3 million in respect of interest loan receivable that was due. Refer to Note 12 for the intercompany loan receivable for the TWUL Group and Note 33 for the Company.

28. Statement of cash flows

Reconciliation of operating profit to operating cash flows

Year ended 31 March	2019			Restated[1] 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Profit for the financial year	**45.5**	**44.4**	**89.9**	193.9	24.9	218.8
Less profit on sale of retail non-household business	**–**	**–**	**–**	(89.7)	–	(89.7)
Less finance income	**(42.1)**	**–**	**(42.1)**	(27.0)	–	(27.0)
Add finance expense	**406.8**	**–**	**406.8**	436.4	–	436.4
Add/(less) net losses/(gains) on financial instruments	**37.7**	**–**	**37.7**	(40.9)	–	(40.9)
Add taxation on profit on ordinary activities	**6.1**	**2.8**	**8.9**	33.2	1.6	34.8
Operating profit	**454.0**	**47.2**	**501.2**	505.9	26.5	532.4
Depreciation on property, plant and equipment	**523.3**	**–**	**523.3**	498.7	–	498.7
Amortisation of intangible assets	**22.0**	**–**	**22.0**	27.5	–	27.5
Loss on sale of property, plant and equipment	**7.0**	**–**	**7.0**	(11.4)	–	(11.4)
Difference between pension charge and cash contribution	**12.8**	**–**	**12.8**	(14.9)	–	(14.9)
Decrease in inventory	**4.6**	**–**	**4.6**	3.6	–	3.6
Decrease/(increase) in trade and other receivables	**15.5**	**(48.3)**	**(32.8)**	(2.2)	(28.7)	(30.9)
Decrease/(increase) in contract assets	**(30.8)**	**(0.9)**	**(31.7)**	28.9	–	28.9
Increase in trade and other payables	**73.0**	**7.6**	**80.6**	8.6	–	8.6
Increase/(decrease) in contract liabilities	**33.6**	**(0.6)**	**33.0**	51.3	3.2	54.5
Increase in group relief payable	**(5.2)**	**–**	**(5.2)**	(18.6)	(2.2)	(20.8)
Decrease in provisions	**(24.1)**	**–**	**(24.1)**	(12.3)	–	(12.3)
Net cash generated by operating activities	**1,085.7**	**5.0**	**1,090.7**	1,065.1	(1.2)	1,063.9

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases. Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Movement in cash and cash equivalents

Year ended 31 March	**2019 £m**	2018 £m
Unrestricted cash movement	**1.6**	(1.6)
Movement in short-term deposits	**53.4**	52.1
Total	**55.0**	50.5

Strategic report
Governance
Financial statements
Annual performance report

Notes to the consolidated financial statements continued

29. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the "supply of trade" disclosure in the Annual Performance Report section on pages 248–305.

Trading transactions

Year ended 31 March	2019		2018	
	Services provided by the Group £'000	**Services provided to the Group £'000**	Services provided by the Group £'000	Services provided to the Group £'000
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	**2,011**	**34**	2,163	1,129
Immediate parent				
Thames Water Utilities Holdings Limited	**24,117**	**63,800**	16,627	59,873
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**278**	**84**	120	14
Thames Water Investments Limited	**113**	**–**	–	–
Thames Water Commercial Services Limited	**258**	**–**	403	–
Thames Water Property Services Limited	**255**	**360**	364	451
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	**–**	**14**	–	4
Total	**27,025**	**64,292**	26,243	61,471

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Outstanding balances

The following amounts were owed to the Group from related entities, and owed to related entities by the Group at the balance sheet date:

Year ended 31 March	2019		2018	
	Amounts owed to the Group £'000	**Amounts owed by the Group £'000**	Amounts owed to the Group £'000	Amounts owed by the Group £'000
Ultimate parent				
Kemble Water Holdings Limited	**5**	**–**	5	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	**1,014**	**–**	1,014	–
Thames Water Limited	**12**	**–**	121	–
Immediate parent				
Thames Water Utilities Holdings Limited	**2,002,034**	**8,188**	1,977,917	4,873
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**–**	**–**	79	–
Thames Water Property Services Limited	**–**	**–**	24	–
Total	**2,003,065**	**8,188**	1,979,160	4,873

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Key management personnel

Key management personnel comprise the members of the Board and of the Executive Team during the year.

The remuneration of the Directors is included within the amounts disclosed below. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 126–143.

Year ended 31 March	**2019 £'000**	2018 £'000
Fees	**936**	837
Salary	**2,528**	2,541
Pension and pension allowance	**448**	365
Bonus	**2,056**	2,055
Long-term incentive plan	**–**	–
Payment on loss of office	**282**	222
Redundancy	**–**	–
Other benefits	**169**	987
Total	**6,419**	7,007

Information regarding transactions with post-employment benefits plans is included in note 22.

30. Intermediate and ultimate parent company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and is the smallest group to consolidate these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

Kemble Water Holdings Limited is owned by 10 shareholders, of which the largest is Ontario Municipal Employees Retirement System (OMERS), with a 31.777% holding.

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts for all entities may be obtained from The Group Secretary's Office at this address.

31. Restatements to the prior year

This is the first reporting year that the Group has presented its financial statements under IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", with the date of transition being 1 April 2018. These accounting policies replace IAS 39 "Financial Instruments: Recognition and Measurement' and IAS 18 "Revenue" respectively.

The Group's accounting policies under IFRS 15 have been applied retrospectively at the date of transition and therefore the Group's "as previously stated" results have been restated. The Group has taken a "modified retrospective" approach in respect of the transition to IFRS 9 and such "as previously stated" results have not been restated for this change in policy.

In addition, the Group has restated the prior years as a result of changes in accounting policies and amendments to its accounting approach. Refer to pages167–168 for more information on adjustments that have impacted prior years.

Notes to the consolidated financial statements continued

31. Restatements to the prior year continued

Reconciliation of consolidated profit and loss for the year ended 31 March 2018

		As previously stated			IFRS 15 transition	Restatement	Restated		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	Underlying £m	BTL £m	Total £m
Revenue	2	2,018.0	26.9	2,044.9	–	–	2,018.0	26.9	2,044.9
Operating expenses	3	(1,595.1)	(0.4)	(1,595.5)	–	0.9	(1,594.2)	(0.4)	(1,594.6)
Other operating income	2	94.1	–	94.1	(12.0)	–	82.1	–	82.1
Operating profit		517.0	26.5	543.5	(12.0)	0.9	505.9	26.5	532.4
Profit on the sale of retail non-household business	5	89.7	–	89.7	–	–	89.7	–	89.7
Finance income	6	132.6	–	132.6	–	(105.6)	27.0	–	27.0
Finance expense	6	(542.0)	–	(542.0)	–	105.6	(436.4)	–	(436.4)
Net gain on financial instruments	7	40.9	–	40.9	–	–	40.9	–	40.9
Profit on ordinary activities before taxation		238.2	26.5	264.7	(12.0)	0.9	227.1	26.5	253.6
Taxation on (profit)/loss on ordinary activities	8	(34.9)	(1.6)	(36.5)	2.0	(0.3)	(33.2)	(1.6)	(34.8)
Profit for the period		203.3	24.9	228.2	(10.0)	0.6	193.9	24.9	218.8

Reconciliation of consolidated statement of comprehensive income for the year ended 31 March 2018

		As previously stated			IFRS 15 transition	Restatement	Restated		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	Underlying £m	BTL £m	Total £m
Profit for the period		203.3	24.9	228.2	(10.0)	0.6	193.9	24.9	218.8
Other comprehensive income									
Will not be reclassified to the income statement:									
Net actuarial gain on pension schemes	22	74.0	–	74.0	–	13.0	87.0		87.0
Deferred tax on net actuarial (gains)	19	(12.6)	–	(12.6)	–	(4.5)	(17.1)	–	(17.1)
May be reclassified to the income statement:									
Gains on cash flow hedges		16.3	–	16.3	–	–	16.3	–	16.3
Cash flow hedges transferred to income statement		84.3	–	84.3	–	–	84.3	–	84.3
Deferred tax (charge) on cash flow hedges	19	(17.1)	–	(17.1)	–	–	(17.1)	–	(17.1)
Other comprehensive income for the period		144.9	–	144.9	–	8.5	153.4	–	153.4
Total comprehensive income/(loss) for the period		348.2	24.9	373.1	(10.0)	9.1	347.3	24.9	372.2

Reconciliation of consolidated statement of financial position as at 1 April 2017

	As previously stated			IFRS 15 transition		Restatement	Restated		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets									
Intangible assets	140.3	–	140.3	–	–	–	140.3	–	140.3
Property, plant and equipment	14,094.5	–	14,094.5	–	–	–	14,094.5	–	14,094.5
Derivative financial assets	170.6	–	170.6	–	–	–	170.6	–	170.6
Intercompany loans receivable	1,974.7	–	1,974.7	–	–	–	1,974.7	–	1,974.7
Trade and other receivables	2.8	30.4	33.2	–	–	39.0	41.8	30.4	72.2
Pension asset	–	–	–	–	–	21.7	21.7	–	21.7
	16,382.9	30.4	16,413.3	–	–	60.7	16,443.6	30.4	16,474.0
Current assets									
Inventories and current intangible assets	21.7	–	21.7	–	–	–	21.7	–	21.7
Assets held for sale	1.0	–	1.0	–	–	–	1.0	–	1.0
Intercompany loans receivable	7.2	–	7.2	–	–	–	7.2	–	7.2
Contract assets	–	–	–	247.4	0.4	(32.7)	214.7	0.4	215.1
Trade and other receivables	634.4	3.0	637.4	(247.4)	(0.4)	(39.0)	348.0	2.6	350.6
Short term investments	1.0	–	1.0	–	–	–	1.0	–	1.0
Cash and cash equivalents	52.7	3.8	56.5	–	–	–	52.7	3.8	56.5
	718.0	6.8	724.8	–	–	(71.7)	646.3	6.8	653.1
Current liabilities									
Contract liabilities	–	–	–	(125.3)	(0.2)	–	(125.3)	(0.2)	(125.5)
Trade and other payables	(932.1)	(6.6)	(938.7)	136.0	0.2	65.6	(730.5)	(6.4)	(736.9)
Borrowings	(342.3)	–	(342.3)	–	–	–	(342.3)	–	(342.3)
Derivative financial liabilities	(23.8)	–	(23.8)	–	–	–	(23.8)	–	(23.8)
	(1,298.2)	(6.6)	(1,304.8)	10.7	–	65.6	(1,221.9)	(6.6)	(1,228.5)
Net current (liabilities)/assets	(580.2)	0.2	(580.0)	10.7	–	(6.1)	(575.6)	0.2	(575.4)
Non-current liabilities									
Contract liabilities	–	–	–	(536.1)	–	–	(536.1)	–	(536.1)
Trade and other payables	(404.9)	–	(404.9)	404.9	–	–	–	–	–
Borrowings	(10,209.4)	–	(10,209.4)	–	–	–	(10,209.4)	–	(10,209.4)
Derivative financial liabilities	(1,398.0)	–	(1,398.0)	–	–	–	(1,398.0)	–	(1,398.0)
Deferred tax	(792.4)	–	(792.4)	20.5	–	(12.9)	(784.8)	–	(784.8)
Provisions for liabilities and charges	(112.5)	–	(112.5)	–	–	(32.9)	(145.4)	–	(145.4)
Pension deficit	(379.8)	–	(379.8)	–	–	15.0	(364.8)	–	(364.8)
	(13,297.0)	–	(13,297.0)	(110.7)	–	(30.8)	(13,438.5)	–	(13,438.5)
Net assets	2,505.7	30.6	2,536.3	(100.0)		23.8	2,429.5	30.6	2,460.1
Equity									
Called up share capital	29.0	–	29.0	–	–	–	29.0	–	29.0
Share premium	100.0	–	100.0	–	–	–	100.0	–	100.0
Cash flow hedge reserve	(222.4)	–	(222.4)	–	–	–	(222.4)	–	(222.4)
Revaluation reserve	1,053.1	–	1,053.1	–	–	–	1,053.1	–	1,053.1
Retained earnings	1,546.0	30.6	1,576.6	(100.0)	–	23.8	1,469.8	30.6	1,500.4
Total equity	2,505.7	30.6	2,536.3	(100.0)	–	23.8	2,429.5	30.6	2,460.1

Notes to the consolidated financial statements continued

31. Restatements to the prior year continued

Reconciliation of consolidated statement of financial position as at 31 March 2018

		As previously stated			IFRS 15 transition		Restatement	Restated		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets										
Intangible assets	10	168.8	–	168.8	–	–	–	168.8	–	168.8
Property, plant and equipment	11	14,675.3	–	14,675.3	–	–	–	14,675.3	–	14,675.3
Derivative financial assets	18	76.4	–	76.4	–	–	–	76.4	–	76.4
Intercompany loans receivable	12	1,974.7	–	1,974.7	–	–	–	1,974.7	–	1,974.7
Trade and other receivables	14	3.3	56.7	60.0	–	–	36.1	39.4	56.7	96.1
Pension asset	22	–	–	–	–	–	50.6	50.6	–	50.6
		16,898.5	56.7	16,955.2	–	–	86.7	16,985.2	56.7	17,041.9
Current assets										
Inventories and current intangible assets	13	18.1	–	18.1	–	–	–	18.1	–	18.1
Assets held for sale		–	–	–	–	–	–	–	–	–
Intercompany loans receivable	12	3.2	–	3.2	–	–	–	3.2	–	3.2
Contract assets	14	–	–	–	225.5	0.4	(39.7)	185.8	0.4	186.2
Derivative financial assets	18	8.5	–	8.5	–	–	–	8.5	–	8.5
Trade and other receivables	14	616.0	5.4	621.4	(225.5)	(0.4)	(36.1)	354.4	5.0	359.4
Cash and cash equivalents	15	104.4	2.6	107.0	–	–	–	104.4	2.6	107.0
		750.2	8.0	758.2	–	–	(75.8)	674.4	8.0	682.4
Current liabilities										
Contract liabilities	16	–	–	–	(125.3)	(4.1)	–	(125.3)	(4.1)	(129.4)
Trade and other payables	16	(811.4)	(9.2)	(820.6)	136.8	4.1	61.5	(613.1)	(5.1)	(618.2)
Borrowings	17	(266.3)	–	(266.3)	–	–	–	(266.3)	–	(266.3)
Derivative financial liabilities	18	(12.3)	–	(12.3)	–	–	–	(12.3)	–	(12.3)
		(1,090.0)	(9.2)	(1,099.2)	11.5	–	61.5	(1,017.0)	(9.2)	(1,026.2)
Net current (liabilities)/ assets		(339.8)	(1.2)	(341.0)	11.5	–	(14.3)	(342.6)	(1.2)	(343.8)
Non-current liabilities										
Contract liabilities	16	–	–	–	(589.9)	–	–	(589.9)	–	(589.9)
Trade and other payables	16	(446.0)	–	(446.0)	446.0	–	–	–	–	–
Borrowings	17	(10,822.2)	–	(10,822.2)	–	–	–	(10,822.2)	–	(10,822.2)
Derivative financial liabilities	18	(1,225.9)	–	(1,225.9)	–	–	–	(1,225.9)	–	(1,225.9)
Deferred tax	19	(853.7)	–	(853.7)	22.5	–	(17.7)	(848.9)	–	(848.9)
Provisions for liabilities and charges	20	(111.3)	–	(111.3)	–	–	(21.8)	(133.1)	–	(133.1)
Pension deficit	22	(300.8)	–	(300.8)	–	–	–	(300.8)	–	(300.8)
		(13,759.9)	–	(13,759.9)	(121.4)	–	(39.5)	(13,920.8)	–	(13,920.8)
Net assets		2,798.8	55.5	2,854.3	(109.9)	–	32.9	2,721.8	55.5	2,777.3
Equity										
Called up share capital		29.0	–	29.0	–	–	–	29.0	–	29.0
Share premium		100.0	–	100.0	–	–	–	100.0	–	100.0
Cash flow hedge reserve		(138.9)	–	(138.9)	–	–	–	(138.9)	–	(138.9)
Revaluation reserve		1,021.2	–	1,021.2	–	–	–	1,021.2	–	1,021.2
Retained earnings		1,787.5	55.5	1,843.0	(109.9)	–	32.9	1,710.5	55.5	1,766.0
Total equity		2,798.8	55.5	2,854.3	(109.9)	–	32.9	2,721.8	55.5	2,777.3

Reconciliation of consolidated statement of cash flows as at 31 March 2018

	As previously stated			IFRS 15 transition		Restatement	Restated		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Operating activities:									
Profit/(loss) on ordinary activities before taxation	203.3	24.9	228.2	(10.0)	–	–	193.3	24.9	218.2
Less profit on sale of retail non-household business	(89.7)	–	(89.7)	–	–	–	(89.7)	–	(89.7)
Less finance income	(132.6)	–	(132.6)	–	–	105.6	(27.0)	–	(27.0)
Add finance expense	542.0	–	542.0	–	–	(105.6)	436.4	–	436.4
Less gain on fair value of financial instruments	(40.9)	–	(40.9)	–	–	–	(40.9)	–	(40.9)
Add/(less) taxation on profit/(loss) on ordinary activities	34.9	1.6	36.5	(2.0)	–	–	32.9	1.6	34.5
Operating profit	517.0	26.5	543.5	(12.0)	–	–	505.0	26.5	531.5
Depreciation on property, plant and equipment	498.7	–	498.7	–	–	–	498.7	–	498.7
Amortisation of intangible assets	27.5	–	27.5	–	–	–	27.5	–	27.5
Profit on sale of property, plant and equipment	(11.4)	–	(11.4)	–	–	–	(11.4)	–	(11.4)
Difference in pension charge and cash contribution	(14.0)	–	(14.0)	–	–	–	(14.0)	–	(14.0)
Decrease in inventory	3.6	–	3.6	–	–	–	3.6	–	3.6
Decrease in contract assets	–	–	–	21.9	–	7.0	28.9	–	28.9
Decrease/(Increase) in trade and other receivables	19.7	(28.7)	(11.6)	(21.9)	–	–	(2.2)	(28.7)	(30.9)
Increase in contract liabilities	–	–	–	51.3	3.2	–	51.3	3.2	54.5
Increase/(decrease) in trade and other payables	43.8	3.2	47.0	(39.3)	(3.2)	4.1	51.4	–	8.6
Decrease in group relief payable	(18.6)	(2.2)	(20.8)	–	–	–	(18.6)	(2.2)	(20.8)
Decrease in provisions	(1.2)	–	(1.2)	–	–	(11.1)	(12.3)	–	(12.3)
Net cash generated by operating activities	1,065.1	(1.2)	1,063.9	–	–	–	1,065.1	(1.2)	1,063.9
Investing activities:									
Decrease in current asset investments	1.0	–	1.0	–	–	–	1.0	–	1.0
Interest received	126.9	–	126.9	–	–	(105.6)	21.3	–	21.3
Purchase of property, plant and equipment	(1,101.4)	–	(1,101.4)	–	–	–	(1,101.4)	–	(1,101.4)
Purchase of intangible assets	(61.8)	–	(61.8)	–	–	–	(61.8)	–	(61.8)
Proceeds from sale of property, plant and equipment	18.8	–	18.8	–	–	–	18.8	–	18.8
Net cash used in investing activities	(1,016.5)	–	(1,016.5)			(105.6)	(1,122.1)	–	(1,122.1)
Financing activities:									
New loans raised	2,238.2	–	2,238.2	–	–	–	2,238.2	–	2,238.2
Repayment of borrowings	(1,799.8)	–	(1,799.8)	–	–	–	(1,799.8)	–	(1,799.8)
Derivative paydown	(28.4)	–	(28.4)	–	–	–	(28.4)	–	(28.4)
Interest paid	(351.9)	–	(351.9)	–	–	105.6	(246.3)	–	(246.3)
Dividends paid	(55.0)	–	(55.0)	–	–	–	(55.0)	–	(55.0)
Net cash used in financing activities	3.1	–	3.1	–	–	105.6	108.7	–	108.7
Net decrease in cash and cash equivalents	51.7	(1.2)	50.5	–	–	–	51.7	(1.2)	50.5
Net cash and cash equivalents at beginning of period	52.7	3.8	56.5	–	–	–	52.7	3.8	56.5
Net cash and cash equivalents at end of period	104.4	2.6	107.0	–	–	–	104.4	2.6	107.0

Company statement of other comprehensive income
For the year ended 31 March

	Note	2019 Underlying £m	2019 BTL £m	2019 Total £m	2018 Restated[1] Underlying £m	2018 Restated[1] BTL £m	2018 Restated[1] Total £m
Profit for the year		**159.0**	**44.4**	**203.4**	99.4	24.9	124.3
Other comprehensive income							
Will not be reclassified to the income statement:							
Net actuarial (losses)/gains on pension schemes	22	**(23.4)**	**–**	**(23.4)**	87.0	–	87.0
Deferred tax credit/(charge) on net actuarial gain/loss	39	**4.3**	**–**	**4.3**	(17.1)	–	(17.1)
May be reclassified to the income statement:							
(Losses)/gains on cash flow hedges		**(8.9)**	**–**	**(8.9)**	16.3	–	16.3
Cash flow hedge transferred to income statement		**34.2**	**–**	**34.2**	84.3	–	84.3
Deferred tax charge on cash flow hedge gain	39	**(4.3)**	**–**	**(4.3)**	(17.1)	–	(17.1)
Other comprehensive income for the year		**1.9**	**–**	**1.9**	153.4	–	153.4
Total comprehensive income for the year		**160.9**	**44.4**	**205.3**	252.8	24.9	277.7

The accounting policies on pages 161–180 and notes on pages 224–246 are an integral part of these financial statements.

Bazalgette Tunnel Limited ("BTL") is an independent company which was appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 161.

1 The restatement in the statement of other comprehensive income relates to the change in accounting policy for the TWMIPS pension scheme surplus is discussed on pages 175 –177.

Company statement of financial position
As at

	Note	31 March 2019 Underlying £m	31 March 2019 BTL £m	31 March 2019 Total £m	Restated[1] 31 March 2018 Underlying £m	Restated[1] 31 March 2018 BTL £m	Restated[1] 31 March 2018 Total £m	Restated[1] 1 April 2017 Underlying £m	Restated[1] 1 April 2017 BTL £m	Restated[1] 1 April 2017 Total £m
Non-current assets										
Intangible assets	10	**217.8**	**–**	**217.8**	168.6	–	168.6	140.5	–	140.5
Property, plant and equipment	11	**15,259.9**	**–**	**15,259.9**	14,675.3	–	14,675.3	14,094.5	–	14,094.5
Investment in subsidiary undertakings	32	**207.8**	**–**	**207.8**	0.1	–	0.1	0.1	–	0.1
Derivative financial assets	38	**99.0**	**–**	**99.0**	59.3	–	59.3	83.6	–	83.6
Intercompany loans receivable[2]	33	**2,274.7**	**–**	**2,274.7**	2,274.7	–	2,274.7	2,274.7	–	2,274.7
Other receivables	34	**41.0**	**101.9**	**142.9**	40.0	56.7	96.7	41.8	30.4	72.2
Pension asset	22	**45.8**	**–**	**45.8**	50.6	–	50.6	21.7	–	21.7
		18,146.0	**101.9**	**18,247.9**	17,268.6	56.7	17,325.3	16,656.9	30.4	16,687.3
Current assets										
Inventories and current intangible assets	13	**13.5**	**–**	**13.5**	18.1	–	18.1	21.7	–	21.7
Assets held for sale		**–**	**–**	**–**	–	–	–	1.0	–	1.0
Intercompany loans receivable	33	**47.6**	**–**	**47.6**	17.9	–	17.9	16.8	–	16.8
Contract assets	34	**217.0**	**0.9**	**217.9**	185.8	0.4	186.2	214.7	0.4	215.1
Trade and other receivables	34	**339.7**	**8.5**	**348.2**	354.5	5.0	359.5	347.8	2.6	350.4
Short term investments		**–**	**–**	**–**	–	–	–	1.0	–	1.0
Cash and cash equivalents	35	**152.0**	**7.6**	**159.6**	104.4	2.6	107.0	52.7	3.8	56.5
		769.8	**17.0**	**786.8**	680.7	8.0	688.7	655.7	6.8	662.5
Current liabilities										
Contract liabilities	36	**(110.6)**	**(3.4)**	**(114.0)**	(125.3)	(4.1)	(129.4)	(125.3)	(0.2)	(125.5)
Trade and other payables	36	**(675.3)**	**(15.5)**	**(690.8)**	(605.8)	(5.1)	(610.9)	(722.8)	(6.4)	(729.2)
Borrowings	37	**(1,222.6)**	**–**	**(1,222.6)**	(320.2)	–	(320.2)	(383.4)	–	(383.4)
Derivative financial liabilities	38	**–**	**–**	**–**	(12.3)	–	(12.3)	(23.8)	–	(23.8)
		(2,008.5)	**(18.9)**	**(2,027.4)**	(1,063.6)	(9.2)	(1,072.8)	(1,255.3)	(6.6)	(1,261.9)
Net current (liabilities)/assets		**(1,238.7)**	**(1.9)**	**(1,240.6)**	(382.9)	(1.2)	(384.1)	(599.6)	0.2	(599.4)
Non-current liabilities										
Contract liabilities	36	**(636.1)**	**–**	**(636.1)**	(589.9)	–	(589.9)	(536.1)	–	(536.1)
Borrowings	37	**(10,996.0)**	**–**	**(10,996.0)**	(11,123.0)	–	(11,123.0)	(10,423.5)	–	(10,423.5)
Derivative financial liabilities	38	**(817.9)**	**–**	**(817.9)**	(809.1)	–	(809.1)	(900.7)	–	(900.7)
Deferred tax	39	**(915.6)**	**–**	**(915.6)**	(915.0)	–	(915.0)	(869.8)	–	(869.8)
Provisions for liabilities and charges	20	**(109.0)**	**–**	**(109.0)**	(133.1)	–	(133.1)	(145.4)	–	(145.4)
Pension deficit	22	**(338.8)**	**–**	**(338.8)**	(300.8)	–	(300.8)	(364.8)	–	(364.8)
		(13,813.4)	**–**	**(13,813.4)**	(13,870.9)	–	(13,870.9)	(13,240.3)	–	(13,240.3)
Net assets		**3,093.9**	**100.0**	**3,193.9**	3,014.8	55.5	3,070.3	2,817.0	30.6	2,847.6
Equity										
Called up share capital	40	**29.0**	**–**	**29.0**	29.0	–	29.0	29.0	–	29.0
Share premium	40	**100.0**	**–**	**100.0**	100.0	–	100.0	100.0	–	100.0
Cash flow hedge reserve	40	**(117.9)**	**–**	**(117.9)**	(138.9)	–	(138.9)	(222.4)	–	(222.4)
Revaluation reserve	40	**989.3**	**–**	**989.3**	1,021.2	–	1,021.2	1,053.1	–	1,053.1
Retained earnings	40	**2,093.5**	**100.0**	**2,193.5**	2,003.5	55.5	2,059.0	1,857.3	30.6	1,887.9
Total equity		**3,093.9**	**100.0**	**3,193.9**	3,014.8	55.5	3,070.3	2,817.0	30.6	2,847.6

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The profit for the year is £203.4 million (restated 2018: £124.3 million).

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 161. The accounting policies on pages 161–180 and notes on pages 224–246 are an integral part of these financial statement.

The company only financial statements for Thames Water Utilities Limited, registered in England & Wales company number 02366661, were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

Brandon Rennet
Chief Financial Officer

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements on pages 167–168.

Company statement of changes in equity
As at

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	**Total equity £m**
1 April 2017	29.0	100.0	(222.4)	1,053.1	1,964.1	**2,923.8**
Restatement for IFRS 15[1]	–	–	–	–	(100.0)	**(100.0)**
Recognition of TWMIPS surplus[1]	–	–	–	–	36.7	**36.7**
Deferred tax on recognition of TWMIPS surplus[1]	–	–	–	–	(12.9)	**(12.9)**
Restated 1 April 2017	29.0	100.0	(222.4)	1,053.1	1,887.9	**2,847.6**
Profit for the period	–	–	–	–	124.3	**124.3**
Gain on cash flow hedge	–	–	16.3	–	–	**16.3**
Cash flow hedges transferred to income statement	–	–	84.3	–	–	**84.3**
Deferred tax charge on cash flow hedge gain	–	–	(17.1)	–	–	**(17.1)**
Actuarial gain on pension scheme[1]	–	–	–	–	87.0	**87.0**
Deferred tax charge on actuarial gain[1]	–	–	–	–	(17.1)	**(17.1)**
Total comprehensive income	–	–	83.5	–	194.2	**277.7**
Transfer of depreciation	–	–	–	(38.4)	38.4	**–**
Deferred tax on depreciation transfer	–	–	–	6.5	(6.5)	**–**
Dividends paid[3]	–	–	–	–	(55.0)	**(55.0)**
Restated 31 March 2018	29.0	100.0	(138.9)	1,021.2	2,059.0	**3,070.3**
Transition to IFRS 9[4]	–	–	–	–	(26.2)	**(26.2)**
Deferred tax on IFRS 9 transition[4]	–	–	–	–	4.5	**4.5**
1 April 2018	29.0	100.0	(138.9)	1,021.2	2,037.3	**3,048.6**
Profit for the period	–	–	–	–	203.4	**203.4**
Loss on cash flow hedge	–	–	(8.9)	–	–	**(8.9)**
Cash flow hedge transfer to the income statement	–	–	34.2	–	–	**34.2**
Deferred tax charge on cash flow hedge	–	–	(4.3)	–	–	**(4.3)**
Actuarial loss on pension scheme	–	–	–	–	(23.4)	**(23.4)**
Deferred tax on actuarial loss	–	–	–	–	4.3	**4.3**
Total comprehensive income	–	–	21.0	–	184.3	**205.3**
Transfer of depreciation[2]	–	–	–	(38.4)	38.4	**–**
Deferred tax on depreciation transfer[2]	–	–	–	6.5	(6.5)	**–**
Dividends paid[3]	–	–	–	–	(60.0)	**(60.0)**
31 March 2019	29.0	100.0	(117.9)	989.3	2,193.5	**3,193.9**

The accounting policies on pages 161–180 and notes on pages 224–246 are an integral part of these financial statements.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.
2 The movement between the revaluation reserve and retained earnings arising from the depreciation and associated deferred tax in the fair value uplift on assets.
3 Refer to Note 9 for information on dividends paid.
4 An adjustment was made for the impact of the transition to new accounting standard IFRS 9 "Financial Instruments: Recognition and Measurement" on 1 April 2018 as discussed on page 174.

Company statement of cash flows
For the year ended 31 March

	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated[1] 2018 Underlying £m	Restated[1] 2018 BTL £m	Restated[1] 2018 Total £m
Net cash generated by operating activities[2]	**1,092.2**	**5.0**	**1,097.2**	1,052.5	(1.2)	1,051.3
Investing activities:						
Increase in current asset investments	–	–	–	1.0	–	1.0
Purchase of property, plant and equipment[3]	(1,117.8)	–	(1,117.8)	(1,101.4)	–	(1,101.4)
Purchase of intangible assets	(71.2)	–	(71.2)	(61.8)	–	(61.8)
Proceeds from sale of property, plant and equipment	2.6	–	2.6	18.8	–	18.8
Interest received	2.6	–	2.6	26.5	–	26.5
Investment in subsidiary	(7.5)	–	(7.5)	–	–	–
Net cash used in investing activities	**(1,191.3)**	**–**	**(1,191.3)**	(1,116.9)	–	(1,116.9)
Financing activities:						
New loans raised	1,148.8	–	1,148.8	2,239.7	–	2,239.7
Repayment of borrowings	(653.3)	–	(653.3)	(1,799.8)	–	(1,799.8)
Derivative paydown	(13.4)	–	(13.4)	(29.9)	–	(29.9)
Interest paid[3]	(272.7)	–	(272.7)	(250.9)	–	(250.9)
Fees paid	(2.7)	–	(2.7)	–	–	–
Dividends paid	(60.0)	–	(60.0)	(55.0)	–	(55.0)
Net cash used in financing activities	**146.7**	**–**	**146.7**	104.1	–	104.1
Net increase/(decrease) in cash and cash equivalents	47.6	5.0	52.6	51.7	(1.2)	50.5
Net cash and cash equivalents at beginning of period	104.4	2.6	107.0	52.7	3.8	56.5
Net cash and cash equivalents at end of period	**152.0**	**7.6**	**159.6**	104.4	2.6	107.0

No additions to property, plant and equipment during the period, or the immediately preceding period, were financed through new finance leases.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Company accounts for this arrangement is detailed in the accounting policies on page 161.

The accounting policies on pages 161–180 and notes on pages 224–246 form an integral part of these financial statements.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.
2 Refer to Note 43 "Statement of Cash Flows" on page 241 for a reconciliation of net cash generated by operating activities.
3 Borrowing costs that have been capitalised are included within "Purchase of property, plant and equipment" under investing activities.

Notes to the company financial statements

32. Investment in subsidiaries

The Cayman Islands entities are no longer subsidiaries of the Company as at 31 March 2019. The entities were formally dissolved on 28 February 2019. The assets and liabilities of Thames Water Utilities Cayman Finance Limited ("TWUCF") were transferred to Thames Water Utilities Finance plc at their fair value on 31 August 2018. To facilitate this, the Company increased its investment in Thames Water Utilities Finance plc. The difference between the carrying value and fair value on novation of the debt gave rise to a gain in TWUCF. The gain has resulted in recognition of non-recurring, non-cash investment income of £108.9 million within the Company.

The below reconciliation identifies the movements in cost of shares in subsidiary undertakings from 1 April 2018 to 31 March 2019:

Reconciliation	£m
Cost of shares in subsidiary undertakings as at 1 April 2018	0.1
Additional investment in Thames Water Utilities Finance plc	207.7
Disposal of £1 investment in Thames Water Utilities Cayman Finance Holdings Limited (and indirect investment in Thames Water Utilities Cayman Finance Limited)	–
Cost of shares in subsidiary undertakings as at 31 March 2019	207.8

The Company has no interest in joint ventures or associates. The Company had the following investments in subsidiary undertakings as at 31 March 2019:

Entity	Holding	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights & shares held
Thames Water Utilities Finance plc	Direct	Finance Company	United Kingdom	£1 Ordinary	100%

All subsidiary undertakings are wholly owned by the Company.

The address of the registered office of Thames Water Utilities Finance plc is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

33. Intercompany loans receivable

As at 31 March	**2019**		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	**1,974.7**	**1,974.7**	1,974.7	1,974.7
Thames Water Utilities Finance plc	**300.0**	**300.0**	200.0	200.0
	2,274.7	**2,274.7**	2,174.7	2,174.7
Amounts owed by former subsidiaries[1]:				
Thames Water Utilities Cayman Finance Limited	**–**	**–**	100.0	100.0
	–	**–**	100.0	100.0
Total principal owed	**2,274.7**	**2,274.7**	2,274.7	2,274.7
Interest receivable on amounts owed by group undertakings:				
Thames Water Utilities Holdings Limited	**27.3**	**27.3**	3.2	3.2
Thames Water Utilities Finance plc	**20.3**	**20.3**	14.4	14.4
	47.6	**47.6**	17.6	17.6
Interest receivable on amounts owed by former subsidiaries[1]:				
Thames Water Utilities Cayman Finance Limited	**–**	**–**	0.3	0.3
	–	**–**	0.3	0.3
Total interest receivable	**47.6**	**47.6**	17.9	17.9
Total	**2,322.3**	**2,322.3**	2,292.6	2,292.6
Disclosed within non-current assets	**2,274.7**	**2,274.7**	2,274.7	2,274.7
Disclosed within current assets	**47.6**	**47.6**	17.9	17.9

The above intercompany loans are unsecured. Refer to Note 27 "Post balance sheet events" for repayments of the intercompany loan receivable. These balances have not been included within the Company's net debt and covenant calculations.

Interest on all of the above loans is charged at a floating rate (2018: floating rate).

1 As at 31 March 2019, the Cayman Islands entities are no longer subsidiaries of the Company. The entities were formally dissolved on 28 February 2019. There are no outstanding balances with the former Cayman Islands entities.

34. Trade and other receivables

As at 31 March	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated[1] 2018 Underlying £m	Restated[1] 2018 BTL £m	Restated[1] 2018 Total £m
Non-current:						
Prepayments	–	101.9	101.9	–	56.7	56.7
Amounts owed by group undertakings	7.2	–	7.2	1.0	–	1.0
Insurance claims receivable[2]	33.8	–	33.8	36.1	–	36.1
Other receivables	–	–	–	2.9	–	2.9
	41.0	101.9	142.9	40.0	56.7	96.7
Current:						
Gross trade receivables	454.9	9.5	464.4	462.5	6.4	468.9
Less doubtful debt provision	(174.4)	(2.2)	(176.6)	(172.6)	(1.7)	(174.3)
Net trade receivables	280.5	7.3	287.8	289.9	4.7	294.6
Amounts owed by group undertakings	–	–	–	1.1	–	1.1
Prepayments	33.3	–	33.3	27.5	–	27.5
Other receivables	25.9	1.2	27.1	36.0	0.3	36.3
	339.7	8.5	348.2	354.5	5.0	359.5
Current:						
Contract assets	217.0	0.9	217.9	185.8	0.4	186.2
	556.7	9.4	566.1	540.3	5.4	545.7
Total	597.7	111.3	709.0	580.3	62.1	642.4

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Non-current prepayments at 31 March 2019 includes £101.9 million (2018: £56.7 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Contract assets at 31 March 2019 includes £144.3 million (restated 2018: £124.0 million) of services provided to metered customers. The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

2 Insurance claims receivable has been reclassified from current to non-current to be classified consistently with the non-current insurance provision. The receivable has been recognised as it is virtually certain that the amount will be paid to the Company.

34. Trade and other receivables continued

Expected credit losses provision

Movements in the expected credit losses provision were as follows:

	2019 £m	2018 £m
At 1 April	(174.3)	(176.4)
Charge for bad and doubtful debts – charged against revenue	(33.4)	(28.7)
Charge for bad and doubtful debts – included within operating expenses	(29.2)	(28.8)
Excess credits recognised during the year	(11.8)	(4.6)
Amounts directly charged to revenue and not included in bad debt expense	(3.9)	(2.3)
Amounts written off	76.0	66.5
Total at 31 March	(176.6)	(174.3)

The ageing of receivables which are past due but not impaired cannot be performed. Ageing of gross receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	243.9	295.9
1 – 2 years	131.7	77.2
2 – 3 years	38.1	44.0
More than 3 years	50.7	51.8
Total	464.4	468.9

The ageing of gross BTL receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	4.7	4.9
1 – 2 years	4.8	1.5
Total	9.5	6.4

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. An expected credit losses provision is recorded against assets which are past due but for which no individual provision is made. This is calculated based on historical experience of levels of recovery. Ageing of impaired receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	66.2	66.2
1 – 2 years	40.6	40.9
2 – 3 years	34.9	23.9
More than 3 years	34.9	43.3
Total	176.6	174.3

Ageing of impaired BTL receivables is as follows:

As at 31 March	2019 £m	2018 £m
Up to 365 days	0.8	0.7
1 – 2 years	1.4	1.0
Total	2.2	1.7

35. Cash and cash equivalents

As at 31 March	2019			2018		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	3.2	0.3	3.5	4.2	0.1	4.3
Short-term deposits	148.8	7.3	156.1	100.2	2.5	102.7
Total	152.0	7.6	159.6	104.4	2.6	107.0

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid across to BTL at the reporting date.

36. Trade and other payables

As at 31 March	2019			Restated[1] 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities[1]	**636.1**	**–**	**636.1**	589.9	–	589.9
Current:						
Trade payables – operating	**258.2**	**–**	**258.2**	184.9	–	184.9
Other taxation and social security	**7.5**	**–**	**7.5**	6.5	–	6.5
Amounts payable in respect of group relief	**3.1**	**4.4**	**7.5**	2.0	1.6	3.6
Accruals[1]	**326.9**	**–**	**326.9**	334.3	–	334.3
Amounts owed to Bazalgette Tunnel Limited	**–**	**11.1**	**11.1**	–	3.5	3.5
Other payables	**79.6**	**–**	**79.6**	78.1	–	78.1
	675.3	**15.5**	**690.8**	605.8	5.1	610.9
Current:						
Contract liabilities[1]	**110.6**	**3.4**	**114.0**	125.3	4.1	129.4
	785.9	**18.9**	**804.8**	731.1	9.2	740.3
Total	**1,422.0**	**18.9**	**1,440.9**	1,321.0	9.2	1,330.2

Current contract liabilities at 31 March 2019 includes £75.6 million (2018: £75.6 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2019 includes £497.0 million (restated 2018: £481.2 million) of deferred infrastructure charges, £121.4 million of deferred income for nil cost “adopted” assets (2018: £89.1 million) with the remaining amount relating to payments received in advance for compensation for operating costs .

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 “Revenue from Contracts with Customers” on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

37. Borrowings

As at 31 March	**2019 £m**	2018 £m
Secured bank loans and private placements	**2,477.2**	2,290.2
Amounts owed to group undertakings	**9,522.7**	8,944.3
	11,999.9	11,234.5
Interest payable on secured bank loans and private placements	**4.9**	4.8
Interest payable on amounts owed to group undertakings	**213.8**	203.9
	218.7	208.7
Total	**12,218.6**	11,443.2
Disclosed within non-current liabilities	**10,996.0**	11,123.0
Disclosed within current liabilities	**1,222.6**	320.2
Total	**12,218.6**	11,443.2

Secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the whole business securitisation group) has entered into a Security Trust and Intercompany Deed (“STID”) with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiary, has guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

As at 31 March 2019, amounts owed to group undertakings, including interest, are unsecured and include the following:

- £9,730.7 million (2018: £2,944.8 million) owed to TWUF. Financing costs arising in Thames Water Utilities Finance plc are directly recharged under mirrored interest terms for all loans except for
  - a £225.0 million 6.59% secured bond due in 2021, which was loaned on with a margin of one basis point, and
  - financing costs relating to TWUCF’s instruments transferred on 31 August 2018, where all costs are recharged under mirrored interest terms, and an additional margin of ten basis points.
- £nil (2018: £6,203.4 million) owed to former subsidiary and dissolved TWUCF. All costs were directly recharged under mirrored interest terms, and an additional margin of ten basis points.
- £5.2 million (2018: £nil) owed to Thames Water Utilities Holdings Limited.
- £0.3 million (2018: £nil) owed to Thames Water Limited.

Notes to the company financial statements continued

37. Borrowings continued

Breakdown of secured bank loans and private placements

As at 31 March	**2019 £m**	2018 £m
£60.0m 1.230% Index linked loan due 2019 (g)	**78.8**	76.8
£60.0m 1.415% Index linked loan due 2020 (g)	**78.5**	76.6
£60.0m 1.513% index linked loan due 2020 (g)	**78.1**	76.2
£60.0m 1.380% index linked loan due 2020 (g)	**77.9**	76.0
£60.0m 1.356% index linked loan due 2020 (g)	**77.9**	76.0
£100.0m floating rate loan due 2020 (a), (c)	**99.9**	99.9
£75.0m 1.350% index linked loan due 2021 (e), (g)	**89.2**	87.0
£215.0m 0.460% index linked loan due 2023 (a), (g)	**248.2**	241.9
£215.0m 0.380% index linked loan due 2032 (a), (b), (g)	**218.9**	228.4
£100.0m 3.280% index linked loan due 2043 (a), (d), (g)	**129.6**	126.4
£100.0m 0.790% index linked loan due 2025 (a), (e), (g)	**109.9**	107.2
£125.0m 0.598% index linked loan due 2026 (a), (e), (g)	**136.7**	133.3
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	**70.0**	69.7
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	**50.0**	49.8
£20.0m Class B floating rate loan due 2026 (a)	**20.0**	19.9
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.4**	38.8
$55.0m 3.380% private placement due 2023 (a), (f)	**42.3**	39.2
$285.0m 3.570% private placement due 2025 (a), (f)	**218.9**	202.8
£216.0m 2.450% private placement due 2028 (a)	**215.4**	215.3
£210m 2.550% private placement due 2030 (a)	**209.3**	209.2
£40m 2.620% private placement due 2033 (a)	**39.8**	39.8
£150.0m floating rate loan due 2024 (a)	**149.5**	–
Total secured bank loans and private placements	**2,477.2**	2,290.2

All loans and private placements are Class A except where highlighted.

(a) These loans and private placements are shown net of issue costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margins of this loan is based on a ratings grid and vary depending upon the senior debt credit rating of both Standard and Poor's and Moody's.
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Company has entered into Cross currency swap agreements which convert this debt into sterling debt.
(g) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

Breakdown of amounts owed to group undertakings

These amounts are intercompany loans.

As at 31 March	2019 £m	2018 £m
THAMES WATER UTILITIES FINANCE PLC		
£100.0m 5.050% fixed rate due 2020	100.0	100.0
£225.0m 6.590% fixed rate due 2021 (d)	225.0	225.0
£175.0m 3.375% index linked due 2021 (c), (l)	282.4	273.5
£330.0m 6.750% fixed rate due 2028 (a), (c)	327.5	327.4
£200.0m 6.500% fixed rate due 2032 (c)	197.8	197.7
£600.0m 5.125% fixed rate due 2037 (c)	596.5	596.5
£300.0m 1.680% index linked due 2053 (c), (l)	435.3	421.7
£300.0m 1.681% index linked due 2055 (c), (l)	435.3	421.6
£245.0m 1.031% floating rate loan due 2019 (i), (k)	245.0	–
£214.3m 1.397% floating rate loan due 2019 (i), (k)	214.3	–
£100.0m 1.985% index linked due 2022 (a), (f), (l)	120.3	–
£96.6m 4.146% fixed rate due 2022 (a)	96.6	–
£128.7m 4.300% fixed rate due 2024 (a)	128.8	–
£161.1m 4.534% fixed rate due 2027 (a)	161.0	–
£100.0m 1.790% index linked due 2029 (f), (l)	112.1	–
£300.0m 5.750% class B Fixed rate due 2030 (a), (c), (g)	298.1	–
£300.0m 4.375% fixed rate due 2034 (a), (c)	295.6	–
¥20.0bn 3.280% fixed rate due 2038 (a), (j)	139.0	–
£200.0m 0.205% index linked due 2039 (a), (f), (l)	226.5	–
£50.0m 3.853% index linked due 2040 (a), (e)	64.9	–
£500.0m 5.500% fixed rate due 2041 (a), (c)	489.8	–
£50.0m 1.980% index linked due 2042 (a), (l)	68.9	–
£55.0m 2.091% index linked due 2042 (a), (c), (l)	72.8	–
£40.0m 1.974% index linked due 2045 (a), (c), (l)	46.3	–
£300.0m 4.625% fixed rate due 2046 (a), (c)	293.2	–
£100.0m 1.846% index linked due 2047 (a), (l)	137.8	–
£200.0m 1.819% index linked due 2049 (a), (c), (l)	275.2	–
£200.0m 1.771% index linked due 2057 (a), (c), (l)	275.1	–
£100.0m index linked due 2060 (a), (l)	111.7	–
£350.0m 1.760% index linked due 2062 (a), (c)	481.5	–
£500.0m 4.000% fixed rate due 2025 (a), (c)	495.9	–
£40.0m 0.750% index linked loan due 2034 (a), (c), (l)	43.5	–
£45.0m 0.721% index linked loan due 2027 (a), (c), (l)	48.9	–
£300.0m 3.500% fixed rate loan due 2028 (a), (c)	296.6	–
£400.0m 7.738% fixed rate bond due 2058 (a), (c)	419.6	–
£250.0m 1.875% fixed rate bond due 2024 (a), (c)	248.1	–
£250.0m 2.625% fixed rate bond due 2032 (a), (c)	247.4	–
£300m 2.375% class B Fixed rate bond due 2023 (a), (c)	298.8	–
£250m 2.875% class B Fixed rate bond due 2027 (a), (c)	246.9	–
£143.6m 2.296% fixed rate bond due 2024 (a), (c)	143.2	–
Fees (h)	(11.2)	–
£85.2m floating rate loan due 2043	85.2	–

Notes to the company financial statements continued

37. Borrowings continued

As at 31 March	2019 £m	2018 £m
THAMES WATER CAYMAN FINANCE LIMITED (b)		
£96.6m 5.196% Class B fixed rate due 2019		96.3
£100.0m 1.985% index linked due 2022 (l)	–	117.3
£96.6m 4.146% fixed rate due 2022	–	96.6
£128.7m 4.300% fixed rate due 2024	–	128.7
£161.1m 4.534% fixed rate due 2027	–	161.1
£100.0m 1.790% index linked due 2029 (l)	–	108.6
£300.0m 5.750% class B Fixed rate due 2030	–	297.8
£300.0m 4.375% fixed rate due 2034	–	295.5
¥20.0bn 3.280% fixed rate due 2038	–	134.2
£200.0m 0.205% index linked due 2039 (l)	–	219.5
£50.0m 3.853% index linked due 2040 (l)	–	63.3
£500.0m 5.500% fixed rate due 2041	–	489.6
£50.0m 1.980% index linked due 2042 (l)	–	67.1
£55.0m 2.091% index linked due 2042 (l)	–	71.0
£40.0m 1.974% index linked due 2045 (l)	–	46.3
£300.0m 4.625% fixed rate due 2046	–	293.1
£100.0m 1.846% index linked due 2047 (l)	–	134.2
£200.0m 1.819% index linked due 2049 (l)	–	267.9
£200.0m 1.771% index linked due 2057 (l)	–	267.9
£100.0m index linked due 2060 (l)	–	108.5
£350.0m 1.760% index linked due 2062 (l)	–	468.8
£500.0m 4.000% fixed rate due 2025	–	495.3
£40.0m 0.750% index linked loan due 2034 (l)	–	42.4
£45.0m 0.721% index linked loan due 2027 (l)	–	47.7
£300.0m 3.500% fixed rate loan due 2028	–	296.3
£400.0m 7.738% fixed rate bond due 2058	–	394.1
£250.0m 1.875% fixed rate bond due 2024	–	247.8
£250.0m 2.625% fixed rate bond due 2032	–	247.2
£300m 2.375% class B Fixed rate bond due 2023	–	298.5
£250m 2.875% class B Fixed rate bond due 2027	–	246.6
£143.6m 2.296% fixed rate bond due 2024	–	143.2
Fees	–	(11.5)
THAMES WATER LIMITED		
£0.3m floating rate loan due 2043	0.3	–
THAMES WATER UTILITIES HOLDINGS LIMITED		
£5.2m floating rate loan due 2043	5.2	–
Total amounts owed to group undertakings	9,522.7	8,944.3

All debt is class A except where highlighted.

(a) Thames Water Utilities Finance Plc charges the Company a margin of ten basis points in respect of the loans.
(b) As at 31 August 2018, TWUCF transferred these intergroup loans to Thames Water Utilities Finance Plc
(c) These loans are shown net of issue costs.
(d) Thames Water Utilities Finance Limited charges the Company a margin of one basis point in respect of this loan
(e) This is a Limited Price Index ("LPI") loan. Accretion charged is calculated using an adjusted UK Retail Price Index.
(f) These amounts have been swapped into index linked debt within the financing subsidiary and the net proceeds lent to TWUL.
(g) In September 2022 this Bond has a "Step Up and Call" meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
(h) These fees have been shown within bonds to reflect that they relate to index linked debt issued in 2007.
(i) In March 2019 £245.0 million was drawn out of £1.4 billion class A revolving credit facility and £214.3 million was drawn out of £214.3 million class B revolving credit facility. Both amounts were repaid in April 2019.
(j) The Company has entered into Cross currency swap agreements which convert this debt into sterling debt.
(k) The interest margin of these lans are based on a ratings grid and vary depending on the senior debt credit rating of both Standard and Poor's and Moody's.
(l) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

38. Financial instruments

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

Financial assets:

As at 31 March	2019 £m	2018 £m
Fair value through profit and loss		
Index linked swaps	63.9	57.4
Interest rate swaps	10.7	–
Cross currency swaps	24.4	1.9
	99.0	59.3
Amortised cost		
Intercompany loans receivable	2,322.3	2,292.6
Other receivables (excluding prepayments)	41.0	40.0
Trade and other receivables (excluding prepayments)	314.9	332.0
Cash and cash equivalents	159.6	107.0
	2,837.8	2,771.6
Total	2,936.8	2,830.9

Financial liabilities:

As at 31 March	2019 £m	2018 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	(54.3)	(60.7)
Interest rate swaps – not hedge accounted	(180.7)	(176.2)
Index linked swaps – not hedge accounted	(556.7)	(539.2)
Derivatives designated as hedging instruments		
Forward starting interest rate swaps – cash flow hedges	(26.2)	(45.3)
	(817.9)	(821.4)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	(683.3)	(604.4)
Borrowings	(12,218.3)	(11,443.2)
	(12,901.6)	(12,047.6)
Total	(13,719.5)	(12,869.0)

Notes to the company financial statements continued

38. Financial instruments continued

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Company's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, we have concluded that it is appropriate to continue to classify the derivative instruments as level 2. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2019:

	Level 2[1]	
As at 31 March	**2019 £m**	2018 £m
Financial assets – derivative financial instruments		
Index linked swaps	**63.9**	57.4
Cross currency swaps	**24.4**	1.9
Interest rate swaps	**10.7**	–
	99.0	59.3
Financial liabilities – derivative financial instruments		
Cross currency swaps	**(54.3)**	(60.7)
Interest rate swaps	**(180.7)**	(176.2)
Index linked swaps	**(556.7)**	(539.2)
Forward starting interest rate swaps	**(26.2)**	(45.3)
	(817.9)	(821.4)
Net total	**(718.9)**	(762.1)

1 The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index linked swaps and options, are measured using discounted cash flows. The future cash flows are estimated based on observable forward interest rates, inflation rates and discounted at a rate that reflects the credit risk of the Company and counterparties. Currency cash flows are translated at spot rate.

In mid-2014 the Company executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. £300.0 million of these swaps commenced during the year (2018: £800.0 million). On commencement these swap were reclassified from forward starting interest rate swaps to interest rate swaps. The fair value movements till commencement were recognised on cash flow hedge reserve. Subsequent to commencement the fair value movement on these swaps has been recognised as changes in fair value through the income statement and the cash flow hedge has been discontinued prospectively. During the year a £8.9 million loss (2018: gain of £16.3 million) was recognised on cash flow hedge reserve and £34.2 million (2018: £84.3 million) was recycled from cash flow hedge reserve to income statement, see Statement of changes in equity. The loss of £34.2 million consisted of £27.4 million loss related to hedged exposure that crystallised during the year and a £6.8 million loss due to hedge accounting discontinuation.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's cash and cash equivalents, trade and other receivables, contract assets, trade and other payables and contract liabilities are considered to be approximate to their fair values. The fair values and carrying values of the Company's other financial assets and financial liabilities are set out in the tables below.

Financial assets:

As at 31 March	2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Non-current				
Intercompany loans receivable	**2,274.7**	**2,274.7**	2,274.7	2,274.7
Derivative financial instruments	**99.0**	**99.0**	59.3	59.3
	2,373.7	**2,373.7**	2,334.0	2,334.0
Current				
Short term investments	**–**	**–**	–	–
Cash and cash equivalents	**159.6**	**159.6**	107.0	107.0
Intercompany loans receivable	**47.6**	**47.6**	17.9	17.9
	207.2	**207.2**	124.9	124.9
Total	**2,580.9**	**2,580.9**	2,458.9	2,458.9

Financial liabilities:

As at 31 March	2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Non-current				
Borrowings				
Secured bank loans and private placements	**(1,972.2)**	**(2,199.4)**	(2,276.3)	(2,480.4)
Amounts owed to group undertakings	**(9,023.9)**	**(11,750.0)**	(8,846.7)	(11,472.7)
Derivative financial instruments				
Cross currency swaps	**(54.3)**	**(54.3)**	(60.7)	(60.7)
Interest rate swaps	**(180.7)**	**(180.7)**	(176.2)	(176.2)
Index linked swaps	**(556.7)**	**(556.7)**	(526.9)	(526.9)
Forward starting interest rate swaps	**(26.2)**	**(26.2)**	(45.3)	(45.3)
	(11,814.0)	**(14,767.3)**	(11,932.1)	(14,762.2)
Current				
Borrowings				
Secured bank loans and private placements	**(505.0)**	**(517.1)**	(13.9)	(13.9)
Amounts owed to group undertakings	**(498.9)**	**(499.1)**	(97.6)	(100.8)
Interest payable	**(218.7)**	**(218.7)**	(208.7)	(208.7)
Derivative financial instruments				
Index linked swaps	**–**	**–**	(12.3)	(12.3)
	(1,222.6)	**(1,234.9)**	(332.5)	(335.7)
Total	**(13,036.6)**	**(16,002.2)**	(12,264.6)	(15,097.9)

Amounts owed to group entities include bonds and private placements issued by subsidiary entities, which are publicly traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of amounts owed to group entities represents the market value of the publicly traded underlying bonds and associated derivatives. For private placements the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread.

The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and adjusted for credit risk if this is significant. The fair value of index linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity.

Amounts owed by group entities include floating rate loans, the fair value of these loans is assumed to be the nominal value of the primary loan.

38. Financial instruments continued

Capital risk management

Capital risk primarily relates to whether the Company is adequately capitalised and financially solvent. The Board reviews the Company's exposure to these risks and actively overseas the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Company's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To retain the Company's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Company is part of a Whole Business Securitisation ("WBS") Group of companies. The Company guarantees the funding activity of subsidiary companies in the WBS group who raise debt finance in external debt markets through the issuance of secured bonds and the issue of loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- An interest cover ratio
- A gearing ratio.
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index linked

The Securitisation Group complied with these ratios throughout the financial year.

The capital structure of the Company consists of net debt and equity as follows:

As at 31 March	**2019 £m**	2018 £m
Cash and cash equivalents	**159.6**	107.7
Short term investments	**–**	–
Secured bank loans and private placements	**(2,477.2)**	(2,290.2)
Amounts owed to group undertakings	**(9,522.7)**	(8,944.3)
Interest payable on secured bank loans and private placements	**(4.9)**	(4.8)
Interest payable on amounts owed to group undertakings	**(213.8)**	(203.9)
Net debt (statutory basis)	**(12,059.0)**	(11,336.2)
Amounts owed to group undertakings	**390.7**	300.0
Interest payable on secured bank loans and private placements	**4.9**	4.8
Interest payable on amounts owed to group undertakings	**213.8**	203.9
Unamortised debt issuance costs and discount	**(74.3)**	(78.0)
Derivative financial liabilities	**(231.4)**	(234.9)
IFRS 9[1]	**25.5**	–
Net debt (covenant basis)	**(11,729.8)**	(11,140.4)
Equity attributable to owners of the Company	**3,193.9**	3,070.4

Net debt (covenant basis) excludes amounts owed to group undertakings for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts, and includes derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate to cross currency swap held in TWUL. Amounts owed to group undertaking include loan from intermediate subsidiary Thames Water Utilities Finance Plc of £300.0 million (2018: £200 million). Amounts owed to former subsidiary and dissolved Thames Water Utilities Cayman Finance Limited of £nil (2018: £100 million).

Net debt (covenant basis) for the Group on page 200 is lower by £2.4 million than the Company due to cash held by TWUF.

1 The impact of the transition to new accounting standard IFRS 9 "Financial Instruments" on 1 April 2018 is discussed on page 174.

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

As at 31 March	2019		2018	
	Borrowings £m	**Derivative financial liabilities £m**	Borrowings £m	Derivative financial liabilities £m
Opening balance	**(11,443.2)**	**(821.4)**	(10,806.9)	(924.5)
Non-Current	**(11,123.0)**	**(809.1)**	(10,423.5)	(900.7)
Current	**(320.2)**	**(12.3)**	(383.4)	(23.8)
Cash flows				
New loans raised	**(1,148.8)**	**–**	(2,239.7)	–
Repayment of borrowings	**653.4**	**–**	1,799.8	–
Derivative paydown	**–**	**13.4**	–	29.9
Interest paid[1]	**381.6**	**–**	351.3	–
Interest received	**–**	**(0.9)**	–	(3.2)
	(113.8)	**12.5**	(88.6)	26.7
Non-cash changes				
Interest accrued/Fees amortised	**(395.7)**	**0.9**	(383.6)	4.0
Foreign exchange movement	**(24.0)**	**–**	5.8	–
Indexation	**(125.7)**	**–**	(172.0)	–
Fair value changes	**–**	**(9.9)**	–	72.4
IFRS 9 adjustment[1]	**(25.5)**	**–**	–	–
Amounts owed to group undertakings	**(90.7)**	**–**	–	–
Other	**–**	**–**	2.1	–
	(661.6)	**(9.0)**	(547.7)	76.4
Closing balance	**(12,218.6)**	**(817.9)**	(11,443.2)	(821.4)
Non-Current	**(10,996.0)**	**(817.9)**	(11,123.0)	(809.1)
Current	**(1,222.6)**	**–**	(320.2)	(12.3)

1 Interest paid of £381.6 million (2018: £351.3 million) includes £109.3 million of capitalised borrowing costs (2018: £100.7 million) and excludes £0.4 million of bank charges (2018: £0.3 million).
2 The impact of the transition to new accounting standard IFRS 9 "Financial Instruments" on 1 April 2018 is discussed on page 174.

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Company has taken to manage them is described below and overleaf.

(d) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Company's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and excludes £250.0 million (2018: £550.0 million) forward starting swaps which will commence after the year ended 31 March 2019:

As at 31 March 2019:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
• £ Sterling	5,660.8	720.2	5,824.7	**12,205.7**

As at 31 March 2018:	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
• £ Sterling	5,681.1	93.4	5,694.9	**11,469.4**

Notes to the company financial statements continued

38. Financial instruments continued

The weighted average interest rates of the debt held by the Company, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below and excludes £250.0 million (2018: £550.0 million) forward starting swaps which will commence after the year ended 31 March 2019:

	Weighted average interest rate		Weighted average period until maturity	
As at 31 March	2019 %	2018 %	2019 Years	2018 Years
Fixed	5.1	5.0	11.6	12.5
Index-Linked	4.3	5.5	21.4	22.4

(iv) Interest rate risk sensitivity analysis

The Company holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 238.

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2019. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2019 +1% £m)**	**2019 -1% £m**	2018 +1% £m	2018 -1%) £m
Profit	**143.0**	**(177.1)**	143.0	(159.5)
Equity	**155.6**	**(190.0)**	167.1	(185.6)

(v) Exchange rate sensitivity analysis

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Company has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table overleaf summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2019. This analysis assumes that all other variables in the valuation remain constant.

As at 31 March	**2019 +10% £m**	**2019 -10% £m**	2018 +10% £m	2018 -10% £m
Profit	**(10.1)**	**6.2**	(3.4)	1.7
Equity	**(10.1)**	**6.2**	(3.4)	1.7

(vi) Inflation risk sensitivity analysis

The Company has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Company as a regulated water company is subject to fluctuations in its revenues due to movements in inflation. Therefore the Company's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2019. This analysis assumes that all other variables, in particular exchange rates, remain constant.

As at 31 March	**2019 +1% £m**	**2019 -1% £m**	2018 +1% £m	2018 -1% £m
Profit	**(421.2)**	**354.1**	(425.5)	381.1
Equity	**(421.2)**	**354.1**	(425.5)	381.1

(e) Credit risk

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

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Company and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Company's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 16. For non-household customers, the credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to conditions that exist within the non-household market.

Under the terms of the WBS agreement, counterparties to the Company's short term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral cash held under the terms of the whole business securitisation agreement.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

As at 31 March	2019 £m	2018 £m
AA-	5.4	0.4
A+	72.2	57.4
A	21.4	1.5
Total	99.0	59.3

(f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in Note 37.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

As at 31 March	2019 £m	2018 £m
Within one year	965.4	111.2
Between one and two years	214.9	496.3
Between two and three years	708.2	214.9
Between three and four years	177.6	697.0
Between four and five years	1,113.8	171.5
After more than five years	8,820.0	9,543.6
Total	11,999.9	11,234.5

(iii) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

As at 31 March Undiscounted amounts payable	2019 £m	2018 £m
Within one year	(2,089.3)	(1,086.5)
Between one and two years	(602.0)	(953.3)
Between two and three years	(1,109.8)	(598.2)
Between three and four years	(543.2)	(1,108.2)
Between four and five years	(1,483.4)	(537.4)
After more than five years	(20,731.0)	(22,047.1)
Total	(26,558.7)	(26,330.7)

(iv) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives (which include interest rate swaps, cross currency swaps and index linked swaps), based on undiscounted cash flows, is as follows:

As at 31 March Undiscounted amounts payable	2019 £m	2018 £m
Within one year	(4.4)	(14.4)
Between one and two years	(4.1)	1.3
Between two and three years	0.4	0.6
Between three and four years	(36.8)	1.2
Between four and five years	(168.0)	(37.8)
After more than five years	(963.3)	(1,157.4)
Total	(1,176.2)	(1,206.5)

Notes to the company financial statements continued

38. Financial instruments continued

Cash flow hedges

The Company has designated a number of contracts which qualify, in accordance with IFRS 9 Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 170.

In mid-2014 the Company executed £2.25 billion of forward-starting fixed to floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. This protects the Company against adverse movements in underlying interest rates by matching debt issuance against a derivative instrument with fixed cash flow.

During the year £300.0 million (2018: £800.0 million) of forward starting swaps commenced. These were reclassified from forward starting interest rate swaps to interest rate swaps and the cash flow hedge for these swaps has been discontinued prospectively, see Fair value measurements section above for more details. On commencement, the fair value of these swaps was £28.0 million, which included £21.2 million recognised on the cash flow hedge reserve and £6.8 million recycled to the income statement.

The Company's cash flow hedge reserve disclosed on the statement of changes in equity on page 222 relate to forward starting interest rate swaps.

As at 31 March	**2019 £m**	2018 £m
At 1 April 2018	**(138.9)**	(222.4)
Loss on cash flow hedge	**(8.9)**	16.3
Cash flow hedge transferred to income statement	**34.2**	84.3
Deferred tax	**(4.3)**	(17.1)
At 31 March 2019	**(117.9)**	(138.9)

Following are the effects of forward starting interest rate swaps on the Company's financial position and performance:

As at 31 March	**2019 £m**	2018 £m
Carrying amount	**26.2**	45.3
Notional amount	**250.0**	550.0
Maturity date	**September 2024**	March 2024 (£300.0 million) September 2024 (£250.0 million)
Hedge ratio	**1:1**	1:1
Change in fair value during the year	**5.5**	8.1
Change in the value of hedged item used to determine hedge effectiveness	**5.6**	8.3

The expected cash flows of the Company's cash flow hedging instruments are as follows:

As at 31 March	**2019 £m**	2018 £m
Undiscounted amounts payable		
Interest rate swaps		
Within one year	**(2.4)**	–
Between one and two years	**(4.9)**	(6.5)
Between two and three years	**(4.9)**	(8.4)
Between three and four years	**(4.9)**	(8.4)
Between four and five years	**(4.9)**	(8.4)
After more than five years	**(2.4)**	(10.4)
Total	**(24.4)**	(42.1)

39. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Company is set out below:

		Accelerated depreciation £m	Retirement benefits £m	Cash flow hedge £m	Other	Total £m
Restated[1,2]	At 1 April 2017	(1,041.9)	51.7	110.4	10.0	(869.8)
	Charge to income	(8.4)	(1.2)	(0.6)	(0.9)	(11.1)
	Credit to other comprehensive income	–	(17.1)	(17.1)	–	(34.2)
	Government grant for research and development	0.1	–	–	–	0.1
Restated[1,2]	At 31 March 2018	(1,050.2)	33.4	92.7	9.1	(915.0)
	Restatement for IFRS 9	–	–	–	4.5	4.5
	Credit/(charge) to income	(1.1)	3.8	(3.8)	(4.0)	(5.1)
	Credit/(charge) to other comprehensive income	–	4.3	(4.3)	–	–
	At 31 March 2019	**(1,051.3)**	**41.5**	**84.6**	**9.6**	**(915.6)**

Deferred tax assets and liabilities have been offset in the balance sheet. The offset amounts, which are to be recovered/settled after more than 12 months are as follows:

As at 31 March	**2019 £m**	2018 £m
Deferred tax asset	**135.7**	135.2
Deferred tax liability	**(1,051.3)**	(1,050.2)
Total	**(915.6)**	(915.0)

1 The impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 is discussed on pages 170–173.
2 The impact of the change in accounting policy for the TWMIPS pension scheme surplus is discussed on pages 175–177.

A deferred tax liability arises in respect of accelerated tax depreciation, because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within the Company mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is provided on the retirement benefit obligations booked in the accounts. The £41.6m deferred tax asset carried forward is the net of an asset of £57.6m (17% of the deficit on the TWPS pension scheme of £338.8m) less a liability of £16.0m (35% of the surplus on the MIPS pension scheme of £45.8m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations
- Cash flow hedge: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax relief is available in accordance with the legislation.

Notes to the company financial statements continued

40. Share capital and other reserves

Share capital

As at 31 March	2019			2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Allotted, called up and fully paid:						
29,050,000 ordinary shares of £1 each (2018: 29,050,000 ordinary shares of £1 each)	**29.0**	**–**	**29.0**	29.0	–	29.0

The company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

As at 31 March	2019			Restated[1] 2018		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Share premium	**100.0**	**–**	**100.0**	100.0	–	100.0
Cash flow hedge reserve	**(117.9)**	**–**	**(117.9)**	(138.9)	–	(138.9)
Revaluation reserve	**989.3**	**–**	**989.3**	1,021.2	–	1,021.2
Retained earnings	**2,093.5**	**100.0**	**2,193.5**	2,003.6	55.5	2,059.1
Total	**3,064.9**	**100.0**	**3,164.9**	2,985.9	55.5	3,041.4

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Refer to Note 9 for information on the dividends paid by the Company.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

41. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable, or cannot be measured reliably.

Financial guarantees

The Company is part of a Whole Business Securitisation ("WBS") group as described in note 38. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group 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.

42. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Company is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary are Obligators under the whole business securitisation entered into in 2007. The Obligators have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligator will guarantee the obligations of each other Obligator with their future cash flows. The guaranteed debt as at 31 March 2019 was £11.9 billion (2018: £11.2 billion).

43. Statement of cash flows

Reconciliation of operating profit to operating cash flows

Year ended 31 March	2019 Underlying £m	2019 BTL £m	2019 Total £m	Restated[1] 2018 Underlying £m	Restated[1] 2018 BTL £m	Restated[1] 2018 Total £m
Profit for the financial year	159.0	44.4	203.4	98.8	24.9	123.7
Less profit on sale of retail non-household business	–	–	–	(89.7)	–	(89.7)
Less investment income	(108.9)	–	(108.9)	–	–	–
Less finance income	(42.0)	–	(42.0)	(28.5)	–	(28.5)
Add finance expense	420.2	–	420.2	464.2	–	464.2
Add loss on financial instruments	19.5	–	19.5	46.7	–	46.7
Add taxation on profit on ordinary activities	6.2	2.8	9.0	13.5	1.6	15.1
Operating profit	454.0	47.2	501.2	505.0	26.5	531.5
Depreciation on property, plant and equipment	523.3	–	523.3	498.7	–	498.7
Amortisation of intangible assets	22.0	–	22.0	27.5	–	27.5
Loss/(profit) on sale of property, plant and equipment	7.0	–	7.0	(11.4)	–	(11.4)
Difference in pension charge and cash contribution	12.8	–	12.8	(14.0)	–	(14.0)
Decrease in inventory	4.6	–	4.6	3.6	–	3.6
Decrease/(Increase) in trade and other receivables	16.6	(48.3)	(31.7)	(2.2)	(28.7)	(30.9)
Decrease in contract assets	(30.8)	(0.9)	(31.7)	28.9	–	28.9
Increase in trade and other payables	73.2	7.6	80.8	7.8	–	7.8
Increase/(decrease) in contract liabilities	33.6	(0.6)	33.0	39.5	3.2	42.7
Decrease in group relief payable	–	–	–	(18.6)	(2.2)	(20.8)
Decrease in provisions	(24.1)	–	(24.1)	(12.3)	–	(12.3)
Net cash generated by operating activities	1,092.2	5.0	1,097.2	1,052.5	(1.2)	1,051.3

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases. Assets transferred from developers and customers for nil consideration were recognised at their fair value.

1 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173 as well as other restatements which are discussed on pages 167–168.

Movement in cash and cash equivalents

Year ended 31 March	2019 £m	2018 £m
Unrestricted cash movement	(0.8)	(1.6)
Movement in short-term deposits	53.4	52.1
Total	52.6	50.5

Notes to the company financial statements continued

44. Related party transactions

Details of transactions with associated companies as required by Ofwat's regulatory accounting guidelines can be also found under the "supply of trade" disclosure in the Annual Performance Report section on pages 247–305.

Trading transactions

Year ended 31 March	2019 Services provided by the Company £'000	2019 Services provided by the Company £'000	2018 Services provided by the Company £'000	2018 Services provided to the Company £'000
Intermediaries between the immediate and ultimate parent				
Thames Water Limited	**2,011**	**34**	2,163	1,129
Immediate parent				
Thames Water Utilities Holdings Limited	**24,117**	**63,800**	16,627	59,873
Former subsidiaries[1]				
Thames Water Utilities Cayman Finance Limited	**924**	**119,554**	1,551	309,936
Subsidiary				
Thames Water Utilities Finance Plc	**7,038**	**324,501**	5,015	167,270
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**278**	**84**	120	14
Thames Water Investments Limited	**113**	**–**	–	–
Thames Water Commercial Services Limited	**258**	**–**	403	–
Thames Water Property Services Limited	**255**	**360**	364	451
Entities external to the Kemble Water Holdings group				
Dunelm Energy Limited	**–**	**14**	–	4
Total	**34,994**	**508,347**	**26,243**	**537,104**

The related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Outstanding balances

The following amounts were owed to the Company from related entities, and owed to related entities by the Company at the balance sheet date:

Year ended 31 March	2019 Amounts owed to the Company £'000	2019 Amounts owed by the Company £'000	2018 Amounts owed to the Company £'000	2018 Amounts owed by the Company £'000
Ultimate parent				
Kemble Water Holdings Limited	**5**	**–**	5	–
Intermediaries between the immediate and ultimate parent				
Kemble Water Finance Limited	**1,014**	**–**	1,014	–
Thames Water Limited	**12**	**–**	121	–
Immediate parent				
Thames Water Utilities Holdings Limited	**2,002,034**	**8,100**	1,977,917	4,300
Former subsidiaries[1]				
Thames Water Utilities Cayman Finance Limited	**–**	**–**	104,844	6,203,362
Subsidiary				
Thames Water Utilities Finance Plc	**320,326**	**9,730,700**	214,455	2,961,960
Other entities within the Kemble Water Holdings group				
Kennet Properties Limited	**–**	**–**	79	–
Thames Water Property Services Limited	**–**	**–**	24	–
Total	**2,323,391**	**9,738,800**	2,298,459	9,169,622

1 The Cayman Island entities were liquidated in the year ended 31 March 2019 and are therefore no longer subsidiaries of the Company.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

45. Intermediate and ultimate parent company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and consolidates these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

Kemble Water Holdings Limited is owned by 10 shareholders, of which the largest is Ontario Municipal Employees Retirement System (OMERS) with 31.777% holding.

The address of the registered office of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts for all entities may be obtained from the Company Secretary's Office at this address.

46. Restatements to the prior year

This is the first reporting year that the Company has presented its financial statements under IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", with the date of transition being 1 April 2018. These accounting policies replace IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 18 "Revenue" respectively.

The Company's accounting policies under IFRS 15 have been applied retrospectively at the date of transition and therefore the Company's as previously stated results have been restated. The Company has taken a "modified retrospective" approach in respect of the transition to IFRS 9 and such as previously stated results have not been restated for this change in policy.

In addition, the Company have restated the prior years as a result of changes in accounting policies and amendments to our accounting approach. Refer to pages 167–168 for more information on adjustments that have impacted prior years.

Reconciliation of company profit and loss for the year ended 31 March 2018

	As previously stated			IFRS 15 Transition	Restatement	Restated		
	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	Underlying £m	BTL £m	Total £m
Revenue	2,018.0	26.9	2,044.9	–	–	2,018.0	26.9	2,044.9
Operating expenses	(1,595.1)	(0.4)	(1,595.5)	–	0.9	(1,594.2)	(0.4)	(1,594.6)
Other operating income	94.1	–	94.1	(12.0)	–	82.1	–	82.1
Operating profit	517.0	26.5	543.5	(12.0)	0.9	505.9	26.5	532.4
Profit on the sale of retail non-household business	89.7	–	89.7	–	–	89.7	–	89.7
Finance income	102.9	–	102.9	–	(74.4)	28.5	–	28.5
Finance expense	(538.6)	–	(538.6)	–	74.4	(464.2)	–	(464.2)
Net gain on financial instruments	(46.7)	–	(46.7)	–	–	(46.7)	–	(46.7)
Profit on ordinary activities before taxation	124.3	26.5	150.8	(12.0)	0.9	113.2	26.5	139.7
Taxation on (profit)/loss on ordinary activities	(15.5)	(1.6)	(17.1)	2.0	(0.3)	(13.8)	(1.6)	(15.4)
Profit for the period	**108.8**	**24.9**	**133.7**	**(10.0)**	**0.6**	**99.4**	**24.9**	**124.3**

Reconciliation of company statement of comprehensive income for the year ended 31 March 2018

		As previously stated			IFRS 15 Transition	Restatement	Restated		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	Underlying £m	BTL £m	Total £m
Profit for the period		108.8	24.9	133.7	(10.0)	0.6	99.4	24.9	124.3
Other comprehensive income									
Will not be reclassified to the income statement:									
Net actuarial gain on pension schemes	22	74.0	–	74.0	–	13.0	87.0	–	87.0
Deferred tax on net actuarial gains	39	(12.6)	–	(12.6)	–	(4.5)	(17.1)	–	(17.1)
May be reclassified to the income statement:									
Gains on cash flow hedges		16.3	–	16.3	–	–	16.3	–	16.3
Cash flow hedges transferred to income statement		84.3	–	84.3	–	–	84.3	–	84.3
Deferred tax (charge) on cash flow hedges	39	(17.1)	–	(17.1)	–	–	(17.1)	–	(17.1)
Other comprehensive income for the period		144.9	–	144.9	–	8.5	153.4	–	153.4
Total comprehensive income/(loss) for the period		253.7	24.9	278.6	(10.0)	9.1	252.8	24.9	277.7

Notes to the company financial statements continued

46. Restatements to the prior year (continued)
Reconciliation of company statement of financial position as at 1 April 2017

	As previously stated			IFRS 15 Transition		Restatement	Restated		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets									
Intangible assets	140.5	–	140.5	–	–	–	140.5	–	140.5
Property, plant and equipment	14,094.5	–	14,094.5	–	–	–	14,094.5	–	14,094.5
Investment in subsidiary undertakings	0.1	–	0.1	–	–	–	0.1	–	0.1
Derivative financial assets	83.6	–	83.6	–	–	–	83.6	–	83.6
Intercompany loans receivable	2,274.7	–	2,274.7	–	–	–	2,274.7	–	2,274.7
Trade and other receivables	2.8	30.4	33.2	–	–	39.0	41.8	30.4	72.2
Pension asset	–	–	–	–	–	21.7	21.7	–	21.7
	16,596.2	30.4	16,626.6	–	–	60.7	16,656.9	30.4	16,687.3
Current assets									
Inventories and current intangible assets	21.7	–	21.7	–	–	–	21.7	–	21.7
Assets held for sale	1.0	–	1.0	–	–	–	1.0	–	1.0
Intercompany loans receivable	16.8	–	16.8	–	–	–	16.8	–	16.8
Contract assets	–	–	–	247.4	0.4	(32.7)	214.7	0.4	215.1
Trade and other receivables	634.2	3.0	637.2	(247.4)	(0.4)	(39.0)	347.8	2.6	350.4
Short term investments	1.0	–	1.0	–	–	–	1.0	–	1.0
Cash and cash equivalents	52.7	3.8	56.5	–	–	–	52.7	3.8	56.5
	727.4	6.8	734.2	–	–	(71.7)	655.7	6.8	662.5
Current liabilities									
Contract liabilities	–	–	–	(125.3)	(0.2)	–	(125.3)	(0.2)	(125.5)
Trade and other payables	(924.4)	(6.6)	(931.0)	136.0	0.2	65.6	(722.8)	(6.4)	(729.2)
Borrowings	(383.4)	–	(383.4)	–	–	–	(383.4)	–	(383.4)
Derivative financial liabilities	(23.8)	–	(23.8)	–	–	–	(23.8)	–	(23.8)
	(1,331.6)	(6.6)	(1,338.2)	10.7	–	65.6	(1,255.3)	(6.6)	(1,261.9)
Net current liabilities	(604.2)	0.2	(604.0)	10.7	–	(6.1)	(599.6)	0.2	(599.4)
Non-current liabilities									
Contract liabilities	–	–	–	(536.1)	–	–	(536.1)	–	(536.1)
Trade and other payables	(404.9)	–	(404.9)	404.9	–	–	–	–	–
Borrowings	(10,423.5)	–	(10,423.5)	–	–	–	(10,423.5)	–	(10,423.5)
Derivative financial liabilities	(900.7)	–	(900.7)	–	–	–	(900.7)	–	(900.7)
Deferred tax	(877.4)	–	(877.4)	20.5	–	(12.9)	(869.8)	–	(869.8)
Provisions for liabilities and charges	(112.5)	–	(112.5)	–	–	(32.9)	(145.4)	–	(145.4)
Pension deficit	(379.8)	–	(379.8)		–	15.0	(364.8)	–	(364.8)
	(13,098.8)	–	(13,098.8)	(110.7)	–	(30.8)	(13,240.3)	–	(13,240.3)
Net assets	2,893.2	30.6	2,923.8	(100.0)	–	23.8	2,817.0	30.6	2,847.6
Equity									
Called up share capital	29.0	–	29.0	–	–	–	29.0	–	29.0
Share premium	100.0	–	100.0	–	–	–	100.0	–	100.0
Cash flow hedge reserve	(222.4)	–	(222.4)	–	–	–	(222.4)	–	(222.4)
Revaluation reserve	1,053.1	–	1,053.1	–	–	–	1,053.1	–	1,053.1
Retained earnings	1,933.5	30.6	1,964.1	(100.0)	–	23.8	1,857.3	30.6	1,887.9
Total equity	2,893.2	30.6	2,923.8	(100.0)	–	23.8	2,817.0	30.6	2,847.6

Reconciliation of company statement of financial position as at 31 March 2018

		As previously stated			IFRS 15 Transition		Restatement	Restated		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets										
Intangible assets	10	168.6	–	168.6	–	–	–	168.6	–	168.6
Property, plant and equipment	11	14,675.3	–	14,675.3	–	–	–	14,675.3	–	14,675.3
Investment in subsidiary undertakings	32	0.1	–	0.1	–	–	–	0.1	–	0.1
Derivative financial assets		59.3	–	59.3	–	–	–	59.3	–	59.3
Intercompany loans receivable	38	2,274.7	–	2,274.7	–	–	–	2,274.7	–	2,274.7
Trade and other receivables	33	4.0	56.7	60.7	–	–	36.0	40.0	56.7	96.7
Pension asset	22	–	–	–	–	–	50.6	50.6	–	50.6
	34	17,182.0	56.7	17,238.7	–	–	86.6	17,268.6	56.7	17,325.3
Current assets										
Inventories and current intangible assets	13	18.1	–	18.1	–	–	–	18.1	–	18.1
Assets held for sale		–	–	–	–	–	–	–	–	–
Intercompany loans receivable	33	17.9	–	17.9	–	–	–	17.9	–	17.9
Contract assets	34	–	–	–	225.5	0.4	(39.7)	185.8	0.4	186.2
Trade and other receivables	34	616.1	5.4	621.5	(225.5)	(0.4)	(36.1)	354.5	5.0	359.5
Short term investments		–	–	–	–	–	–	–	–	–
Cash and cash equivalents	35	104.4	2.6	107.0	–	–	–	104.4	2.6	107.0
		756.5	8.0	764.5	–	–	(75.8)	680.7	8.0	688.7
Current liabilities										
Contract liabilities	36	–	–	–	(125.3)	(4.1)	–	(125.3)	(4.1)	(129.4)
Trade and other payables	36	(804.1)	(9.2)	(813.3)	136.8	4.1	61.5	(605.8)	(5.1)	(610.9)
Borrowings	37	(320.2)	–	(320.2)	–	–	–	(320.2)	–	(320.2)
Derivative financial liabilities	38	(12.3)	–	(12.3)	–	–	–	(12.3)	–	(12.3)
		(1,136.6)	(9.2)	(1,145.8)	11.5	–	61.5	(1,063.6)	(9.2)	(1,072.8)
Net current (liabilities)/assets		(380.1)	(1.2)	(381.3)	11.5	–	(14.3)	(382.9)	(1.2)	(384.1)
Non-current liabilities										
Contract liabilities	36	–	–	–	(589.9)	–	–	(589.9)	–	(589.9)
Trade and other payables	36	(446.0)	–	(446.0)	446.0	–	–	–	–	–
Borrowings	37	(11,123.0)	–	(11,123.0)	–	–	–	(11,123.0)	–	(11,123.0)
Derivative financial liabilities	38	(809.1)	–	(809.1)	–	–	–	(809.1)	–	(809.1)
Deferred tax	39	(919.8)	–	(919.8)	22.5	–	(17.7)	(915.0)	–	(915.0)
Provisions for liabilities and charges	20	(111.3)	–	(111.3)	–	–	(21.8)	(133.1)	–	(133.1)
Pension deficit	22	(300.8)	–	(300.8)	–	–	–	(300.8)	–	(300.8)
		(13,710.0)	–	(13,710.0)	(121.4)	–	(39.5)	(13,853.2)	–	(13,853.2)
Net assets		3,091.9	55.5	3,147.4	(109.9)	–	32.9	3,014.8	55.5	3,070.3
Equity										
Called up share capital		29.0	–	29.0	–	–	–	29.0	–	29.0
Share premium		100.0	–	100.0	–	–	–	100.0	–	100.0
Cash flow hedge reserve		(138.9)	–	(138.9)	–	–	–	(138.9)	–	(138.9)
Revaluation reserve		1,021.2	–	1,021.2	–	–	–	1,021.2	–	1,021.2
Retained earnings		2,080.6	55.5	2,136.1	(109.9)	–	32.9	2,003.5	55.5	2,059.0
Total equity		3,091.9	55.5	3,147.4	(109.9)	–	32.9	3,014.8	55.5	3,070.3

Notes to the company financial statements continued

46. Restatements to the prior year (continued)

Reconciliation of company statement of cash flows as at 31 March 2018

	As previously stated			IFRS 15 Transition		Restatement	Restated		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Operating activities:									
Profit/(loss) on ordinary activities after taxation	108.8	24.9	133.7	(10.0)	–	–	98.8	24.9	123.7
Less profit on sale of retail non-household business	(89.7)	–	(89.7)	–	–	–	(89.7)	–	(89.7)
Less finance income	(102.9)	–	(102.9)	–	–	74.4	(28.5)	–	(28.5)
Add finance expense	538.6	–	538.6	–	–	(74.4)	464.2	–	464.2
Add loss on fair value of financial instruments	46.7	–	46.7	–	–	–	46.7	–	46.7
Add /(less) taxation on profit/(losses) on ordinary activities	15.5	1.6	17.1	(2.0)	–	–	13.5	1.6	15.1
Operating profit	517.0	26.5	543.5	(12.0)	–	–	505.0	26.5	531.5
Depreciation on property, plant and equipment	498.7	–	498.7	–	–	–	498.7	–	498.7
Amortisation of intangible assets	27.5	–	27.5	–	–	–	27.5	–	27.5
Profit on sale of property, plant and equipment	(11.4)	–	(11.4)	–	–	–	(11.4)	–	(11.4)
Difference in pension charge and cash contribution	(14.0)	–	(14.0)	–	–	–	(14.0)	–	(14.0)
Decrease in inventory	3.6	–	3.6	–	–	–	3.6	–	3.6
Decrease in contract assets	–	–	–	21.9	–	7.0	28.9	–	28.9
Decrease/(Increase) in trade and other receivables	19.7	(28.7)	(9.0)	(21.9)	–	–	(2.2)	(28.7)	(30.9)
Increase in contract liabilities	–	–	–	51.5	3.2	–	51.5	3.2	54.7
Increase/(decrease) in trade and other payables	43.2	3.2	46.4	(39.5)	(3.2)	4.1	7.8	–	7.8
Decrease in group relief payable	(18.6)	(2.2)	(20.8)	–	–	–	(18.6)	(2.2)	(20.8)
Decrease in provisions	(1.2)	–	(1.2)	–	–	(11.1)	(12.3)	–	(12.3)
Net cash generated by operating activities	1,064.5	(1.2)	1,063.3	–	–	–	1,064.5	(1.2)	1,063.3
Investing activities:									
Decrease in current asset investments	1.0	–	1.0	–	–	–	1.0	–	1.0
Interest received	93.7	–	93.7	–	–	(67.2)	26.5	–	26.5
Purchase of property, plant and equipment	(1,101.4)	–	(1,101.4)	–	–	–	(1,101.4)	–	(1,101.4)
Purchase of intangible assets	(61.8)	–	(61.8)	–	–	–	(61.8)	–	(61.8)
Proceeds from sale of property, plant and equipment	18.8	–	18.8	–	–	–	18.8	–	18.8
Net cash used in investing activities	(1,049.7)	–	(1,049.7)	–	–	(67.2)	(1,116.9)	–	(1,116.9)
Financing activities:									
New loans raised	2,239.7	–	2,239.7	–	–	–	2,239.7	–	2,239.7
Repayment of borrowings	(1,799.8)	–	(1,799.8)	–	–	–	(1,799.8)	–	(1,799.8)
Derivative paydown	(29.9)	–	(29.9)	–	–	–	(29.9)	–	(29.9)
Interest paid	(318.1)	–	(318.1)	–	–	67.2	(250.9)	–	(250.9)
Dividends paid	(55.0)	–	(55.0)	–	–	–	(55.0)	–	(55.0)
Net cash used in financing activities	36.9	–	36.9	–	–	67.2	104.1	–	104.1
Net decrease in cash and cash equivalents	51.7	(1.2)	50.5	–	–	–	51.7	(1.2)	50.5
Net cash and cash equivalents at beginning of period	52.7	3.8	56.5	–	–	–	52.7	3.8	56.5
Net cash and cash equivalents at end of period	104.4	2.6	107.0	–	–	–	104.4	2.6	107.0

The regulatory accounts and additional information which form part of this Annual Performance Report ("APR") are disclosed on pages 247–300 and are provided to comply with Condition F of the Instrument of Appointment ("licence") of Thames Water Utilities Limited (the "Company") as a water and sewerage undertaker under the Water Industry Act 1991. Our licence can be found on the Ofwat website at: https://www.ofwat.gov.uk/wp-content/uploads/2019/01/Thames-Water-Consolidated-Appointment-amended-Jan-2019.pdf.

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 303–304.

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 2019, which can be found on pages 1–247. 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 2019 (pages 1–95) which contains information in respect of the Company's strategy, operational and financial performance and principal risks and uncertainties to which the business is exposed;
- Directors' Report (pages 144–146), which contains a statement as to the disclosure of information to the independent auditors (page 147);
- Remuneration Committee Report (pages 126–143) 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)). The Remuneration Committee Report also includes reference to rewards and incentives for senior management, including the Executive Team; and
- Corporate Governance report (pages 96–147).

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 our network). The results of the non-appointed business include payment of charitable donations. These donations are considered to be made out of external 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.

In addition, the Directors are required to comply with Condition P of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991. The purpose of this condition is to ensure that:

- The Appointed Business is conducted as if it is substantially the Appointee's sole business and it is a public limited company separate from any other business carried out by the Appointee;
- The Appointee retains sufficient rights and assets and has in place adequate financial resources and facilities, management resources and systems of planning and internal controls;
- Any transfers or transactions entered into by the Appointee do not adversely affect the Appointee's ability to carry out the Regulated Activities; and,
- The Appointee demonstrates that it is complying with the requirements of this Condition.

These responsibilities are additional to those already set out in the statutory accounts. For further details of the additional responsibilities refer to the Sufficiency of Resources Certificate on pages 294–295 and the Risk and Compliance Statement on pages 298–302.

Condition P: Regulatory ring-fence

Paragraph 4.2 of Condition P 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 resources (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 4.2 of Condition P of the Instrument of Appointment throughout the year and to the date of signing of this APR.

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 2.07 – Guideline for classification of costs across the price controls;
- RAG 3.11 – Guideline for the format and disclosures for the APR;
- RAG 4.08 – Guideline for the table definitions in the APR; and
- RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors.

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 viability statement can be found on pages 45–49.

Tax strategy

The Company's aim is to be clear and transparent about its approach to tax and its tax profile. The Company's tax strategy has five key principles, which are unchanged from the previous year:

- 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 more details on our tax strategy on our website at: www.corporate.thameswater.co.uk/-/media/Site-Content/Thames-Water/Corporate/AboutUs/Investors/Thames-Water-Tax-Strategy.pdf

Cost assessment

The Company has chosen to publish the 2018/19 cost assessment tables 4J – 4W, as a separate document to the APR as per RAG 3.11. These tables have been prepared in accordance with the RAGs and are to be read in conjunction with the APR. You can view these tables on our website at: https://www.thameswater.co.uk/sitecore/content/Corporate/Corporate/about-us/our-investors/annual-results

1A. Income statement

For the year ended 31 March 2019

This table takes the information from the company only statutory income statement and shows the adjustments made in order to arrive at the regulatory income statement for the appointed business. The adjustments include both differences between the International Financial Accounting Standards and the Regulatory Accounting Guidelines and the removal of non-appointed income and costs.

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Revenue	**2,084.4**	**32.7**	**70.8**	**(38.1)**	**2,046.3**
Operating costs	(1,655.0)	(20.4)	(10.3)	(10.1)	**(1,665.1)**
Other operating income	71.8	(76.6)	–	(76.6)	**(4.8)**
Operating profit	**501.2**	**(64.3)**	**60.5**	**(124.8)**	**376.4**
Other income	108.9	67.0	1.0	66.0	**174.9**
Interest income	42.0	–	–	–	**42.0**
Interest expense	(420.2)	(102.7)	–	(102.7)	**(522.9)**
Other interest expense	–	(6.6)	–	(6.6)	**(6.6)**
Profit before tax and fair value movements	**231.9**	**(106.6)**	**61.5**	**(168.1)**	**63.8**
Fair value losses on financial instruments	(19.5)	–	–	–	**(19.5)**
Profit before tax	**212.4**	**(106.6)**	**61.5**	**(168.1)**	**44.3**
UK corporation tax	(3.9)	–	(3.7)	3.7	**(0.2)**
Deferred tax	(5.1)	–	–	–	**(5.1)**
Profit for the year	**203.4**	**(106.6)**	**57.8**	**(164.4)**	**39.0**
Dividends	(60.0)	–	(13.4)	13.4	**(46.6)**
Tax analysis					
Current year	(3.9)	–	(3.7)	3.7	**(0.2)**
Adjustments in respect of prior years	–	–	–	–	**–**
UK corporation tax	(3.9)	–	(3.7)	3.7	**(0.2)**

Analysis of non-appointed revenue	Non appointed
Imported sludge	–
Tankered waste	5.4
Other non-appointed revenue	65.4
Revenue	**70.8**

Note: Signage convention for non-appointed activities follows Ofwat guidance. Total adjustments comprise the difference between statutory and RAG definitions and exclusion of non-appointed activities.
Note 2: In 2018/19, consolidated statutory accounts have been presented. The regulatory accounts continue to be presented for the company only.

Regulatory financial reporting continued

Explanation of reconciling items:

Adjustments are made to the statutory numbers to ensure compliance with the Ofwat guidance detailed in RAG 3.11 and 4.08. The most significant include:

- Reclassification of bad debt from revenue to operating costs;
- Borrowing costs capitalised within fixed assets in the statutory accounts are recognised as interest expense for regulatory purposes. The associated depreciation of borrowing costs is recognised in operating costs; and,
- Reclassification of certain costs to align with regulatory presentation requirements.

Full reconciliations of the differences between statutory and regulatory figures are provided on the following pages: Revenue page 258, Operating profit, other income, and profit before tax page 261.

Non-appointed activities include revenue and costs relating to Bazalgette Tunnel Limited ("BTL"). BTL is an independent company unrelated to Thames Water Utilities Limited, and was appointed in 2015 to construct the Thames Tideway Tunnel.

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 2019. As cash is collected, these amounts are subsequently paid to BTL within a maximum of 50 business days under the "pay when paid" principle. Accounting standards require the Group to present the amounts billed as revenue in our financial statements, and with an associated cost representing bad debt on amounts billed, this also gives rise to reporting profit which is taxable.

The dividend presented in the non-appointed column is a notional dividend reflecting the non appointed profit, excluding profit related to BTL.

1B. Statement of comprehensive income

For the year ended 31 March 2019

The statement of comprehensive income shows all of the changes to our statement of financial position reserves from the company only statutory accounts adjusting for the differences between IFRS and the RAGs as well as removing the results of the non-appointed business.

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Profit for the year	**203.4**	**(106.6)**	**57.8**	**(164.4)**	**39.0**
Actuarial losses on post-employment plans	(23.4)	–	–	–	**(23.4)**
Other comprehensive income	25.3	–	–	–	**25.3**
Total comprehensive income for the year	**205.3**	**(106.6)**	**57.8**	**(164.4)**	**40.9**

Note: Signage convention for non-appointed activities follows Ofwat guidance. Total adjustments comprise the difference between statutory and RAG definitions and exclusion of non-appointed activities.
Note 2: In 2018/19, consolidated statutory accounts have been presented. The regulatory accounts continue to be presented for the company only.

1C. Statement of financial position

As at 31 March 2019

Table 1C takes the company only statement of financial position and adjusts for the differences between IFRS and RAGs as well as excluding the non-appointed business.

		Adjustments			
Statement of financial position	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Non-current assets					
Fixed assets	15,259.9	(460.9)	0.7	(461.6)	**14,798.3**
Intangible assets	217.8	(13.0)	–	(13.0)	**204.8**
Investments – loans to Group companies	2,274.7	–	–	–	**2,274.7**
Investments – other	350.7	–	101.9	(101.9)	**248.8**
Financial instruments	99.0	(28.2)	–	(28.2)	**70.8**
Retirement benefit assets	45.8	–	–	–	**45.8**
Total non-current assets	**18,247.9**	**(502.1)**	**102.6**	**(604.7)**	**17,643.2**
Current assets					
Inventories	13.5	–	–	–	**13.5**
Trade and other receivables	613.7	–	9.4	(9.4)	**604.3**
Financial instruments	–	–	–	–	**–**
Cash and cash equivalents	159.6	–	7.6	(7.6)	**152.0**
Total current assets	**786.8**	**–**	**17.0**	**(17.0)**	**769.8**
Current liabilities					
Trade and other payables	(804.8)	(77.8)	(19.6)	(58.2)	**(863.0)**
Capex creditor	–	(136.3)	–	(136.3)	**(136.3)**
Borrowings	(1,222.6)	218.7	–	218.7	**(1,003.9)**
Financial instruments	–	–	–	–	**–**
Current tax liabilities	–	–	–	–	**–**
Provisions	–	(5.1)	–	(5.1)	**(5.1)**
Total current liabilities	**(2,027.4)**	**(0.5)**	**(19.6)**	**19.1**	**(2,008.3)**
Net current liabilities	**(1,240.6)**	**(0.5)**	**(2.6)**	**2.1**	**(1,238.5)**
Non-current liabilities					
Trade and other payables	(636.1)	636.2	–	636.2	**0.1**
Borrowings	(10,996.0)	(231.4)	–	(231.4)	**(11,227.4)**
Financial instruments	(817.9)	241.7	–	241.7	**(576.2)**
Retirement benefit obligations	(338.8)	–	–	–	**(338.8)**
Provisions	(109.0)	–	–	–	**(109.0)**
Deferred income – grants and contributions	–	(497.0)	–	(497.0)	**(497.0)**
Deferred income – adopted assets	–	(121.4)	–	(121.4)	**(121.4)**
Preference share capital	–	–	–	–	**–**
Deferred tax	(915.6)	–	–	–	**(915.6)**
Total non-current liabilities	**(13,813.4)**	**28.1**	**–**	**28.1**	**(13,785.3)**
Net assets	3,193.9	(474.5)	100.0	(574.5)	**2,619.4**
Equity					
Calles up share capital	29.0	–	–	–	**29.0**
Retained earnings & other reserves	3,164.9	(474.5)	100.0	(574.5)	**2,590.4**
Total equity	3,193.9	(474.5)	100.0	(574.5)	**2,619.4**

Note: Signage convention for non-appointed activities follows Ofwat guidance. Total adjustments comprise the difference between statutory and RAG definitions and exclusion of non-appointed actualities.
Note 2: In 2018/19, consolidated statutory accounts have been presented. The regulatory accounts continue to be presented for the company only.

Regulatory financial reporting continued

Explanation of reconciling items:

Adjustments are made to the statutory numbers to ensure compliance with the Ofwat guidance detailed in RAG 3.11 and 4.08. The most significant include:

- Capitalised interest for borrowing costs is removed from fixed assets;
- Capital creditors are disclosed separately;
- A reclassification is made from current borrowings to trade and other payables in respect of accrued interest (see below);
- A reclassification is made from financial instruments to non-current borrowings due to derivative financial liabilities (see below); and
- The non appointed business shows retained earnings of £100 million relating to BTL.

Borrowings reconciliation

Please see the reconciliation below which outlines the differences between statutory and regulatory definitions of current and non-current borrowings.

	Appointed activities £m
Current liabilities	
Current borrowings included in statutory accounts	**1,222.6**
Difference between statutory and regulatory definitions:	
Accrued interest taken to trade and other payables	**(218.7)**
Accretion moved to borrowings from financial instruments	–
Current borrowings included in regulatory accounts (per Table 1C)	**1,003.9**
Non-current liabilities	
Non-current borrowings included in statutory accounts:	**10,996.0**
Difference between statutory and regulatory definitions	
Accretion moved to borrowings from financial instruments	**239.4**
Foreign Exchange gains moved to borrowings from financial instruments	**(8.0)**
Non-current borrowings included in regulatory accounts (per Table 1C)	**11,227.4**
Total borrowings included in statutory accounts	**12,218.6**
Total borrowings included in regulatory accounts (per Table 1C)	**12,231.3**
Intercompany loans[1]	**(390.7)**
Total borrowings included in regulatory accounts (per Table 1C after intercompany adjustments)	**11,840.6**
Total borrowings included in regulatory accounts (Table1E)	**11,840.6**

1 Table 1E has been completed under revised Ofwat guidance in 2018/19 and as a result intercompany loans are now excluded. Table 1C continues to report on a Company only basis.

Financial derivatives reconciliation

Please see the reconciliation of financial derivatives below which outlines the differences between regulatory tables 1C Statement of financial position and 4I Financial derivatives.

	£m
Per Table 1C:	
Non-current assets – financial instruments	**(70.8)**
Current liabilities – financial instruments	–
Non-current liabilities – financial instruments	**576.2**
	505.4
Per Table 4I:	
Total financial derivatives – mark-to-market	**487.5**
Accrued interest	**17.9**
	505.4

1D. Statement of cash flows

For the year ended 31 March 2019

This table takes the information from the statement of cash flows from the company statutory accounts and adjusts for the differences between IFRS and the RAGs as well as removing the cash flows of the non-appointed business to show the cash flows of our regulated business.

		Adjustments			
Statement of cash flows	Statutory £m	Differences between statutory and RAG £m	Non-appointed £m	**Total adjustments £m**	**Total appointed £m**
Operating profit	501.2	(64.3)	60.5	(124.8)	**376.4**
Other income	–	67.0	0.3	66.7	**66.7**
Depreciation	545.3	(3.4)	0.3	(3.7)	**541.6**
Amortisation – grants and contributions	–	–	–	–	**–**
Changes in working capital	55.0	0.7	(42.7)	43.4	**98.4**
Pension contributions	12.8	6.6	–	6.6	**19.4**
Movement in provisions	(24.1)	–	–	–	**(24.1)**
Loss on disposal of fixed assets	7.0	–	–	–	**7.0**
Cash generated from operations	**1,097.2**	**6.6**	**18.4**	**(11.8)**	**1085.4**
Net interest paid	(270.1)	(115.9)	–	(115.9)	**(386.0)**
Tax paid	–	–	–	–	**–**
Net cash generated from operating activities	**827.1**	**(109.3)**	**18.4**	**(127.7)**	**699.4**
Investing activities					
Capital expenditure	(1,189.1)	109.3	–	109.3	**(1,079.8)**
Grants and contributions	–	–	–	–	**–**
Proceeds from disposal of fixed assets	2.6	–	–	–	**2.6**
Other	(7.5)	–	–	–	**(7.5)**
Net cash used in investing activities	**(1,194.0)**	**109.3**	**–**	**109.3**	**(1,084.7)**
Net cash used before financing activities	**(366.9)**	**–**	**18.4**	**(18.4)**	**(385.3)**
Cash flows from financing activities					
Equity dividends paid	(60.0)	–	(13.4)	13.4	**(46.6)**
Net loans received	479.4	–	–	–	**479.4**
Cash inflow from equity financing	–	–	–	–	**–**
Net cash generated from financing activities	**419.4**	**–**	**(13.4)**	**13.4**	**432.8**
Increase/(decrease) in net cash	**52.5**	**–**	**5.0**	**(5.0)**	**47.5**

Note: Signage convention for non-appointed activities follows Ofwat guidance. Total adjustments comprise the difference between statutory and RAG definitions and exclusion of non-appointed activities.
Note 2: In 2018/19, consolidated statutory accounts have been presented. The regulatory accounts continue to be presented for the company only.

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 statutory statement of cash flows.
- The difference is primarily due to the classification of all interest related balances including amounts capitalised in the statutory statement of financial position to the "Net interest paid" category.

1E. Net debt analysis

As at 31 March 2019

Table 1E provides a further breakdown of our borrowings and net debt (total borrowings less cash and cash equivalents) position at year end. For further information on how our gearing (debt to RCV) impacts our business, please see our financial flows metrics on page 255.

	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings (excluding preference shares)	5,936.3	79.6	5,824.7	11,840.6
Preference share capital				–
Total borrowings				11,840.6
Cash				(3.2)
Short term deposits				(148.8)
Net debt				11,688.6
Gearing				81.89%
Adjusted Gearing				82.20%
Full year equivalent nominal interest cost	291.8	4.6	233.2	529.6
Full year equivalent cash interest payment	291.8	4.6	90.9	387.3
Indicative interest rates				
Indicative weighted average nominal interest rate	4.89%	5.72%	4.00%	4.45%
Indicative weighted average cash interest rate	4.89%	5.72%	1.56%	3.26%
Weighted average years to maturity	11.3	(114.0)	21.4	15.4

Borrowings include all debt relevant to TWUL as the regulated company, even where this has been taken out by its financing subsidiary, Thames Water Utilities Finance plc. TWUL has a total intercompany payable of £390.7m which does not correspond to an external borrowing and is therefore excluded from the table.

The standard methodology used to calculate weighted average maturities and interest rates results in outputs that are not meaningful when including negative principal figures. This is the case for TWUL given that it has both fixed and floating payments and receipts and is particularly evident for the average weighted maturity of floating rate debt, which produces a negative result. No adjustments have been made to modify this calculation basis.

1F. Financial flows metrics

The tables below show the various components of actual returns achieved for each financial year and the average for the past four years. The actual return has been benchmarked against the allowed return permitted under the regulatory regime. Commentary on the actual returns is contained in the Chief Financial Officer's statement on page 22.

For the 12 months ended 31 March 2019

	%			£m, 2012/13 real		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	5.60%	2.63%	5.60%	255.25	119.73	119.73
Actual performance adjustment 2010–2015	0.00%	0.00%	0.00%	0.02	0.01	0.01
Adjusted Return on regulatory equity	5.60%	2.63%	5.60%	255.26	119.73	119.73
Regulatory equity (£m, 2012/13 real)	**4,556.58**	**4,556.58**	**2,137.32**			
Financing						
Gearing	0.00%	1.60%	3.41%	–	72.85	72.85
Variance in corporation tax	0.00%	(0.02)%	(0.04)%	–	(0.80)	(0.80)
Group relief	0.00%	0.01%	0.03%	–	0.60	0.60
Cost of debt	0.00%	2.93%	6.24%	–	133.46	133.46
Hedging instruments	0.00%	(0.61)%	(1.30)%	–	(27.78)	(27.78)
Financing total	**5.60%**	**6.54%**	**13.95%**	**255.26**	**298.07**	**298.07**
Operational performance						
Totex out/(under) performance	0.00%	(2.81)%	(5.98)%	–	(127.83)	(127.83)
ODI out/(under) performance	0.00%	(1.13)%	(2.42)%	–	(51.66)	(51.66)
Retail out/(under) performance	0.00%	(0.68)%	(1.44)%	–	(30.81)	(30.81)
Other exceptional items[1]	0.00%	(0.22)%	(0.46)%	–	(9.83)	(9.83)
Operational performance total	**0.00%**	**(4.83)%**	**(10.30)%**	**–**	**(220.12)**	**(220.12)**
Total earnings	**5.60%**	**1.71%**	**3.65%**	**255.26**	**77.95**	**77.95**
RCV growth from RPI inflation	3.06%	3.06%	3.06%	139.23	139.23	65.31
Total shareholder return	8.66%	4.77%	6.70%	394.49	217.18	143.25
Net dividend	**4.00%**	**0.43%**	**0.91%**	**182.26**	**19.38**	**19.38**
Retained value	**4.66%**	**4.34%**	**5.80%**	**212.23**	**197.79**	**123.87**
Dividends reconciliation						
Gross dividend	4.00%	0.88%	1.88%	182.26	40.21	40.21
Interest received on intercompany loans[2]	0.00%	0.46%	0.97%	–	20.83	20.83
Net dividend	**4.00%**	**0.43%**	**0.91%**	**182.26**	**19.38**	**19.38**

1 Other exceptional items for 2018/19 reflects the impact of having previously sold our non household retail business. As such the business no longer recovers the corresponding retail margin that was awarded in the final determination.
2 Interest received on intercompany loans relates to the interest on the loan due from its parent company, Thames water Utilities Holding Ltd.

Regulatory financial reporting continued

Average for AMP6

Average (2015/16 to 2018/19)	% Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	£m, 2012/13 real Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	5.61 %	2.61 %	5.61 %	247.19	114.94	114.94
Actual performance adjustment 2010–15	0.01 %	0.00 %	0.01 %	0.28	0.13	0.13
Adjusted Return on regulatory equity	5.62 %	2.61 %	5.62 %	247.47	115.07	115.07
Regulatory equity (£m, 2012/13 real)	4,404.00	4,404.00	2,047.75			
Financing						
Gearing	0.00 %	1.63 %	3.50 %	–	71.75	71.75
Variance in corporation tax	0.00 %	(0.48) %	(1.04) %	–	(21.33)	(21.33)
Group relief	0.00 %	0.32 %	0.69 %	–	14.20	14.20
Cost of debt	0.00 %	1.29 %	3.67 %	–	56.74	75.21
Hedging instruments	0.00 %	(0.24) %	(0.69) %	–	(10.60)	(14.03)
Financing total	**5.62%**	**5.13%**	**11.76%**	**247.47**	**225.84**	**240.87**
Operational performance						
Totex out/(under) performance	0.00 %	(1.99) %	(4.29) %	–	(87.80)	(87.80)
ODI out/(under) performance	0.00 %	(0.65) %	(1.39) %	–	(28.45)	(28.45)
Retail out/(under) performance	0.00 %	(0.58) %	(1.24) %	–	(25.3 6)	(25.36)
Other exceptional items[1]	0.00 %	0.34 %	0.74 %	–	15.08	15.08
Operational performance total	**0.00%**	**(2.87)%**	**(6.18)%**	**–**	**(126.53)**	**(126.53)**
Total earnings	**5.62%**	**2.25%**	**5.58%**	**247.47**	**99.30**	**114.33**
RCV growth from RPI inflation	2.50 %	2.50 %	2.50 %	110.30	110.30	51.29
Total shareholder return	8.12 %	4.76 %	8.09 %	357.77	209.60	165.62
Net dividend	**4.00%**	**0.97%**	**2.09%**	**176.16**	**42.86**	**42.86**
Retained value	**4.12%**	**3.79%**	**5.99%**	**181.61**	**166.74**	**122.76**
Dividends reconciliation						
Gross dividend	4.00 %	1.39 %	3.00 %	176.16	61.40	61.40
Interest received on intercompany loans[2]	0.00 %	0.42 %	0.91 %	–	18.54	18.54
Net dividend	**4.00%**	**0.97%**	**2.09%**	**176.16**	**42.86**	**42.86**

1 Other exceptional items for 2018/19 reflects the impact of having previously sold our non household retail business. As such the business no longer recovers the corresponding retail margin that was awarded in the final determination.

2 Interest received on intercompany loans relates to the interest on the loan due from its parent company, Thames water Utilities Holding Ltd.

Accounting policies

The regulatory accounts have been prepared in accordance with IFRS and the accounting policies detailed on pages 161–180, except for the areas required to differ by Ofwat as detailed in the RAGs. These areas with differing regulatory treatment, such as revenue recognition, capitalisation of interest and grants and contributions, are discussed further below.

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 set out on pages 248–305 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 comprehensive income, a statement of financial position, 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 at 27 June 2019, the date that the Board of Directors approved the statements, except for:

- Revenue recognition (IFRS 15); and,
- Capitalisation of borrowing costs (IAS 23).

These exceptions result from compliance with RAGs 3.11 and 4.08 and any subsequent information notices published by Ofwat relating to the year ended 31 March 2019.

Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.07 for classification of costs across the price controls. Price control segments for 2018/19 are:

Retail household:	Provides certain customer-facing activities including billing and revenue collection for household customers;
Retail non-household:	Provides a small number of customer-facing activities for non-household customers (see below);
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.

Transfer of non-household retail customers to Castle Water

On 1 April 2017, the Company transferred its non-household customers to Castle Water Limited, and ceased to act as a retailer for non-household customers; however, the Company continues to recognise wholesale revenue from these customers via retailers. The responsibility of billing and revenue collection from retailers lies with our Customer Experience team.

The Company no longer has a licence to operate in the retail non-household market; however, there are a small number of non-household activities which continue to be allocated to the retail non-household price control in accordance with RAG 2.07. These amounts relate to activities which are performed by developer services. Additionally some costs relating to pre-market opening have been recognised in the current year.

Basis of attribution and allocation to price control

Financial information within the Company's finance system (SAP) is recorded by expenditure type within specific cost centres. Where possible, operating 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.

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.

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.

Methodology

The Company has produced an Accounting Methodology statement in respect of total expenditure. This separate statement has been published and is available on our 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 4.08, and also includes a summary of the fixed asset allocation to price control.

Revenue recognition

For regulatory reporting purposes, Ofwat requires a deviation from IFRS 15 whereby revenue for amounts billed and deemed uncollectable in the current year are recognised within operating costs 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 £38.0 million for the year ended 31 March 2019.

Accounting policies continued

The differences between the statutory accounts and the regulatory accounts can be summarised as follows (Table 1A):

Appointed revenue	£m
Statutory revenue	2,084.4
Bad debt reclassified to opex	33.5
Reclassification of sludge cake sales to opex	(1.0)
Reclassification of grants and contributions to other income	(1.6)
Reclassification of third party revenue	2.1
Non-appointed income	(70.8)
Other	(0.3)
Appointed revenue	2,046.3

Charges 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 (for household and non-household). All of the charges covered in parts 1 and 2 are included in revenue.

Household charges policy

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 six 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 where water is being consumed

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; and
- premises being used as storage.

2) Charges payable in part

The following charges maybe payable 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.

Non-household charges policy

1. Charges payable in full

Water (and sewerage) charges are payable in full from the date of connection.

2. Charges payable in part

a) Unoccupied

Where properties are classified as unoccupied fixed charges are not applied but volumetric water and wastewater charges apply

b) Sewerage unmeasured tariff

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

c) 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 household 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:

- mailings;
- customer contacts;
- meter reading for metered properties;
- land registry checks; and
- credit reference agency data.

Unoccupied household 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 six 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 residency confirmation 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.

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.

If the occupier name is not obtained at this point, the property will remain classified as empty and the residency confirmation process will 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.

New household 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.

Accounting policies continued

Household 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 household measured income accrual

Appointed income for the year ended 31 March 2018 included a measured income accrual of £134.4 million. The value of billing subsequently recognised in the year ended 31 March 2019, for consumption in the prior year was £136.0 million. This has resulted in an increase in the current year's turnover due to the under-estimation of the prior year's measured income accrual as detailed below:

Metered accrual at 31 March 2018	March 18 £m
Base accrual	134.1
Less billing estimate	–
	134.1
Additional accruals	
– Sales max accrual	–
– New accounts accrual	0.3
– Additional new accounts accrual re. internal metering	–
Total metered accrual at 31 March 2018	134.4
Subsequent "unwind" of accrual	
Subsequent billing: matched and unwound	131.9
Still in base accrual and not unwound	1.1
Additional subsequent billing, including property movements	3.0
Comparative subsequent billing and accrual still carried forward	**136.0**
Net overwind	(1.6)

Operating profit, other income and profit before tax

Operating profit:	£m
Statutory operating profit	501.2
Reclassification of grants and contributions to other income	(63.8)
Reclassification of third party revenue	(0.4)
Capitalised borrowings depreciation	(3.4)
Reclassification of rental income to other income	(2.7)
Non-appointed	(60.5)
Other	(0.8)
Regulatory operating profit	376.4

Other income:	£m
Statutory other income	108.9
Reclassification of grants and contributions to other income	63.8
Reclassification of third party revenue	0.4
Reclassification of rental income to other income	2.7
Non-appointed	(1.0)
Other	0.1
Regulatory other income	**174.9**

Profit before tax:	£m
Statutory profit before tax	212.4
Non-appointed	(61.5)
Capitalised borrowings	(109.3)
Other	2.7
Regulatory profit before tax	**44.3**

Accounting policies continued

Capitalisation policy

Property, plant and equipment

The regulatory accounts policy on property, plant and equipment ("PP&E") follows the statutory accounting policies with the exception of borrowing costs. 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 IAS 23, results in an additional £109.3 million being recognised in interest expense in the regulatory accounts for 2018/19. This amount has been capitalised in the statutory accounts.

Financial instruments and hedging

Regulatory fair value measurement

For statutory reporting 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 252.

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	(3.9)	(3.7)	(0.2)
Deferred tax charge	(5.1)	–	(5.1)
Tax charge on profit on ordinary activities	(9.0)	(3.7)	(5.3)

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 2019 is lower (2018: 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.

	Total £m	Non-appointed £m	Appointed activities £m
Profit on ordinary activities before taxation	212.4	61.5	150.9
Differences between statutory and regulatory definitions – mainly capitalised interest	(106.6)	–	(106.6)
Profit on ordinary activities before taxation for regulatory purposes	105.8	61.5	44.3
Tax charge at 19%	20.1	11.7	8.4
Effects of:			
Depreciation on assets that do not qualify for relief	4.2	–	4.2
Disallowable expenditure[1]	0.1	–	0.1
Non-taxable income[2]	(25.7)	–	(25.7)
Depreciation for the year in excess of capital allowances	45.2	–	45.2
Capitalised borrowing costs allowable for tax[3]	(20.8)	–	(20.8)
Tax deduction available on restatement for IFRS 15[4]	(25.2)	–	(25.2)
Profits on financial derivatives[5]	(4.1)	–	(4.1)
Pension cost charge in excess of pension contributions	3.7	–	3.7
Other short-term timing differences	(5.3)	–	(5.3)
Group relief not paid at standard rate[6]	(8.6)	(8.0)	(0.6)
Differences between statutory and regulatory definitions – mainly capitalised interest	20.3	–	20.3
	3.9	3.7	0.2
Adjustments to tax charge in respect of prior periods – group relief	–	–	–
Total current tax charge	3.9	3.7	0.2

1 Disallowable expenditure primarily relates to fines included in operating expenses.
2 Non-taxable income comprises:
- income from new service connections which is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances;
- non-taxable cash investment income arising in the year to 30 March 2019 from the liquidation of the Cayman Islands entities which has no impact on the taxable position of the group as a whole as all entities are fully taxable in the UK.

3 Capitalised borrowing costs are allowable for a full tax deduction in the year.
4 The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 "Revenue from Contracts with Customers" on 1 April 2018 as discussed on pages 170–173.
5 Accounting fair value profits and losses arising on our derivatives are predominantly non-taxable and non-deductible respectively, as instead they are usually taxed as the cash flows arise. Deferred tax is provided on all temporary differences.
6 The Company intends to utilise tax losses available in its parent company for the year ended 31 March 2019. As a result, the Company intends to reduce its claims for tax relief on its capital expenditure in this period. The Company expects to pay £3.9 million to its parent company for the tax losses relating to the year ended 31 March 2019. 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 £8.6 million. Utilising tax losses in this way should ultimately benefit customers through lower costs being recovered through bills 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	0.2
Charge in respect of group relief for prior years	–
Tax charge on profit on ordinary activities	0.2

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.

2A. Segmental income statement

For the year ended 31 March 2019

The following table provides further information of our appointed business split by the price control units defined by Ofwat.

	Retail		Wholesale							
	Household £m	Non-household £m	Water resources £m	Water network+ £m	**Water total £m**	Wastewater network+ £m	Sludge £m	**Wastewater total £m**	TTT £m	**Total £m**
Revenue – price control	170.1	(0.1)		841.2	**841.2**	954.4		**954.4**	57.5	2,023.1
Revenue – non-price control	–	–		16.0	**16.0**	7.2		**7.2**	–	23.2
Operating expenditure	(173.7)	(12.8)	(60.7)	(448.4)	**(509.1)**	(373.9)	(54.0)	**(427.9)**	–	(1,123.5)
Depreciation – tangible fixed assets	(3.1)	–	(4.0)	(275.7)	**(279.7)**	(184.0)	(52.3)	**(236.3)**	(0.7)	(519.8)
Depreciation – intangible fixed assets	(1.8)	–	(0.1)	(4.3)	**(4.4)**	(12.3)	(3.3)	**(15.6)**	–	(21.8)
Other operating income	–	–	–	3.7	**3.7**	(6.6)	(1.9)	**(8.5)**	–	(4.8)
Operating profit before recharges	(8.5)	(12.9)			**67.7**			**273.3**	56.8	376.4
Recharges in respect of “principal use” assets										
Recharges from other segments	(1.6)	–	(0.6)	(7.3)	**(7.9)**	–	–	**–**	–	(9.5)
Recharges to other segments	–	–	–	–	**–**	7.6	1.9	**9.5**	–	9.5
Operating profit	**(10.1)**	**(12.9)**			**59.8**			**282.8**	**56.8**	**376.4**
Surface water drainage rebates										1.6

2B. Totex analysis – wholesale water and wastewater

For the year ended 31 March 2019

This table shows the breakdown of the wholesale totex expenditure from table 2A into the price control units required to be reported on by Ofwat.

	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	TTT £m	**Total £m**
Operating expenditure						
Power	14.4	48.8	78.0	(18.9)	–	**122.3**
Income treated as negative expenditure	(0.2)	(0.1)	(0.3)	(13.1)	–	**(13.7)**
Service charges/discharge consents	13.1	–	6.7	0.1	–	**19.9**
Bulk supply/bulk discharge	4.3	0.1	3.0	0.1	–	**7.5**
Other operating expenditure						
- Renewals expensed in year (infrastructure)	–	63.1	70.6	–	–	**133.7**
- Renewals expensed in year (non-infrastructure)	–	–	–	–	–	**–**
- Other operating expenditure excluding renewals	23.0	257.1	185.1	76.1	–	**541.3**
Local authority and cumulo rates	3.6	75.8	27.7	9.7	–	**116.8**
Total operating expenditure excluding third party services	**58.2**	**444.8**	**370.8**	**54.0**	**–**	**927.8**
Third party services	2.5	3.6	3.1	–	–	**9.2**
Total operating expenditure	**60.7**	**448.4**	**373.9**	**54.0**	**–**	**937.0**
Capital expenditure						
Maintaining the long-term capability of the assets – infra	3.9	167.5	88.1	1.0	–	**260.5**
Maintaining the long-term capability of the assets – non-infra	4.6	186.0	159.3	67.7	–	**419.5**
Other capital expenditure – infra	–	84.5	41.8	–	35.0	**161.3**
Other capital expenditure – non-infra	12.7	62.7	95.2	–	(1.6)	**167.1**
Infrastructure network reinforcement	–	0.2	6.1	–	–	**6.3**
Total gross capital expenditure (excluding third party)	**21.2**	**500.9**	**390.5**	**68.7**	**33.4**	**1,014.7**
Third party services	–	0.4	0.2	–	–	**0.6**
Total gross capital expenditure	**21.2**	**501.3**	**390.7**	**68.7**	**33.4**	**1,015.3**
Grants and contributions						
Grants and contributions	–	43.4	31.4	–	–	**74.8**
Totex	**81.9**	**906.3**	**733.2**	**122.7**	**33.4**	**1,877.5**
Cash expenditure						
Pension deficit recovery payments	–	–	–	–	–	**–**
Other cash items	–	–	–	–	–	**–**
Totex including cash items	**81.9**	**906.3**	**733.2**	**122.7**	**33.4**	**1,877.5**

2C. Operating cost analysis – retail

For the year ended 31 March 2019

Table 2C breaks down the retail operating costs included in table 2A into the cost categories set out in the RAGs.

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	66.7	0.5	**67.2**
Debt management	10.3	–	**10.3**
Doubtful debts	57.3	5.0	**62.3**
Meter reading	10.2	–	**10.2**
Services to developers	–	1.5	**1.5**
Other operating expenditure	29.2	5.8	**35.0**
Total operating expenditure excluding third party services	173.7	12.8	**186.5**
Third party services operating expenditure	–	–	–
Total operating expenditure	173.7	12.8	**186.5**
Depreciation – tangible fixed assets	3.1	–	**3.1**
Amortisation – intangible fixed assets	1.8	–	**1.8**
Total operating costs	**178.6**	**12.8**	**191.4**
Debt written off	76.1	0.3	**76.4**

Total operating costs for retail household are £178.6 million in 2018/19; this is £23 million higher than the cost to serve as planned in the Final Determination of £155.6 million. During 2018/19 the household retail price control has seen the following variations in costs:

- Higher provisions for doubtful debts as a result of prior year cash collection rates being lower than targeted.
- The business has responded to the weather event of 2017/18 by investing in staff and communications to increase resilience to future events.
- Increased group cost during the year is a result of increased Group FTE particularly within our digital teams which has led to an overall increase in costs allocated to the appointed business

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 ownership of its non-household customers to Castle Water from the date of market opening. The Company continues to incur certain operational costs related to the non-household market as disclosed in table 2C above. These costs have been disclosed within the non-household price control in accordance with Ofwat guidance and relate to the following:

- Developer services for the provision of information and administration for new connections;
- Increase in doubtful debt provisions for NHH legacy debt; and
- General and support expenditure in relation to the above activities including ongoing costs resulting from market exit.

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

As at 31 March 2019

This table shows the changes in the fixed assets of the wholesale and retail activities. Our accounting policies with relation to fixed assets and depreciation are set out in full on page 162.

	Wholesale					Retail		
	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	TTT £m	Household £m	Non-household £m	**Total £m**
Cost								
At 1 April 2018	283.1	9,158.7	7,724.5	1,414.0	1,113.4	84.9	–	**19,778.6**
Disposals	–	(1.6)	(18.7)	(3.8)	–	–	–	**(24.1)**
Additions	21.1	498.9	364.3	62.3	33.3	4.5	–	**984.4**
Adjustments	(13.3)	(36.4)	(128.6)	170.3	–	4.7	–	**(3.3)**
Assets adopted at nil cost	–	8.3	27.3	–	–	–	–	**35.6**
At 31 March 2019	**290.9**	**9,627.9**	**7,968.8**	**1,642.8**	**1,146.7**	**94.1**	**–**	**20,771.2**
Depreciation								
At 1 April 2018	(72.7)	(2,533.9)	(2,187.5)	(607.3)	(2.6)	(61.7)	–	**(5,465.7)**
Disposals	–	1.5	10.6	2.4	–	–	–	**14.5**
Adjustments	10.0	(7.7)	17.7	(20.0)	–	(1.8)	–	**(1.8)**
Charge for year	(4.0)	(275.7)	(184.0)	(52.3)	(0.7)	(3.1)	–	**(519.8)**
At 31 March 2019	**(66.7)**	**(2,815.8)**	**(2,343.2)**	**(677.2)**	**(3.3)**	**(66.6)**	**–**	**(5,972.8)**
Net book value at 31 March 2019	**224.2**	**6,812.1**	**5,625.6**	**965.6**	**1,143.4**	**27.5**	**–**	**14,798.4**
Net book value at 1 April 2018	**210.4**	**6,624.8**	**5,537.0**	**806.7**	**1,110.8**	**23.2**	**–**	**14,312.9**
Depreciation charge for year								
Principal services	(4.0)	(275.7)	(183.9)	(52.3)	(0.7)	(3.1)	–	**(519.7)**
Third party services	–	–	(0.1)	–	–	–	–	**(0.1)**
Total	**(4.0)**	**(275.7)**	**(184.0)**	**(52.3)**	**(0.7)**	**(3.1)**	**–**	**(519.8)**

Note: A review of our fixed asset disclosure for 2018/19 identified assets costing a total of £0.4 million that had been included incorrectly. Our brought forward values for 2018/19 reported table 2D reflect the correction for these assets.
Note 2: Adjustments includes asset reclasses, revaluations or accounting (e.g. IFRS) adjustments.

Price review and other segmental reporting continued

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

For the year ended 31 March 2019

Table 2E shows information about capital contributions made by customers to the cost of assets we construct along with any income received by the sale of land.

	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	19.7	–	–	**19.7**
Infrastructure charge receipts	–	3.7	–	**3.7**
Requisitioned mains	2.2	–	–	**2.2**
Other contributions (price control)	0.6	1.8	–	**2.4**
Diversions	3.6	–	–	**3.6**
Other contributions (non-price control)	10.7	1.1	–	**11.8**
Total	**36.8**	**6.6**	**–**	**43.4**
Value of adopted assets		8.3		**8.3**
Grants and contributions – wastewater				
Infrastructure charge receipts	–	12.1	–	**12.1**
Requisitioned sewers	3.3	–	–	**3.3**
Other contributions (price control)	2.4	1.3	–	**3.7**
Diversions	3.5	–	–	**3.5**
Other contributions (non-price control)	7.9	0.9	–	**8.8**
Total	**17.1**	**14.3**	**–**	**31.4**
Value of adopted assets		27.3		**27.3**
Grants and contributions – TTT				
Infrastructure charge receipts	–	–	–	**–**
Requisitioned sewers	–	–	–	**–**
Other contributions (price control)	–	–	–	**–**
Diversions	–	–	–	**–**
Other contributions (non-price control)	–	–	–	**–**
Total	**–**	**–**	**–**	**–**
Value of adopted assets		–		**–**

	Water £m	Wastewater £m	TTT £m	Total £m
Movements in capitalised grants and contributions				
b/f	199.6	286.4	–	486.0
Capitalised in year	6.6	14.3	–	20.9
Amortisation (in income statement)	(2.9)	(2.1)	–	(5.0)
c/f	203.3	298.6	–	501.9

Land sales	Water £m	Wastewater £m	TTT £m	Total £m
Proceeds from disposals of protected land	3.4	(1.1)	–	2.3

Note 1: As stated on page 170 to the Annual Report and Financial Statements, the financial year 2018/19 is the first reporting period in which the Company has adopted IFRS 15 "Revenue from Contracts with Customers" with the date of transition being 1 April 2018. This has replaced IAS 18 "Revenue" and the Company's accounting policies have been revised accordingly. Our revised accounting policies under IFRS 15 have been applied retrospectively at the date of transition and accordingly the Company's reported results in the previous financial year have been restated. This change has resulted in the restatement of total capitalised grants and contributions, with adjustments totalling £47.5 million (water) and £85.0 million (wastewater) being applied to the 1 April 2018 brought forwards position of the "Movements in capitalised grants and contributions" section of table 2E.

2F. Household – revenue by customer type

For the year ended 31 March 2019

This table shows an analysis of household retail revenues and customer numbers by customer type.

	Wholesale charges revenue £m	Retail revenue £m	**Total revenue £m**	Number of customers 000s	**Average household retail revenue per customer £**
Unmeasured water only customer	6.2	0.4	**6.6**	25.8	**16.1**
Unmeasured wastewater customer only	136.6	16.9	**153.5**	810.7	**20.8**
Unmeasured water and wastewater customer	719.0	73.6	**792.6**	2,024.3	**36.4**
Measured water only customer	5.9	0.1	**6.0**	22.6	**6.5**
Measured wastewater only customer	165.7	29.3	**195.0**	1,133.6	**25.9**
Measured water and wastewater customer	450.6	49.8	**500.4**	1,438.8	**34.6**
Total	**1,484.0**	**170.1**	**1,654.1**	**5,455.8**	**31.2**

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 (column E) is calculated by dividing retail revenue from column B by the number of customers in column D.
Note 2: Number of customers has been calculated as average number of customers at the start and end of the year.

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

For the year ended 31 March 2019

Table 2G shows an analysis of non-household water revenues and customer numbers by customer type.

	Wholesale charges revenue £m	Retail revenue £m	**Total revenue £m**	Number of connections £m	**Average household retail revenue per customer £**
Default tariffs					
TB 1: Water – metered – 0-500m^3	30.9	–	**30.9**	109.2	
TB 2: Water – metered – 500-1,000m^3	12.7	–	**12.7**	13.0	
TB 3: Water – metered – 1,000-5,000m^3	47.1	–	**47.1**	18.4	
TB 4: Water – metered – 5,000-20,000m^3	37.0	(0.3)	**36.7**	3.9	
TB 5: Water – metered – 20,000-50,000m^3	20.1	–	**20.1**	0.6	
TB 6: Water – metered – 50,000-250,000m^3	25.6	0.1	**25.7**	0.4	
TB 7: Water – metered – over 250,000m^3	9.0	0.1	**9.1**	0.1	
TB 22: Water – business assessed – 0-500m^3	2.7	–	**2.7**	23.0	
TB 23: Water – business assessed – 500-1,000m^3	1.0	–	**1.0**	1.1	
TB 24: Water – business assessed – 1,000-5,000m^3	1.3	–	**1.3**	0.5	
TB 25: Water – business assessed – 5,000-20,000m^3	0.3	–	**0.3**	–	
TB 30: Water – unmetered	1.0	–	**1.0**	8.1	
Total default tariffs	**188.7**	**(0.1)**	**188.6**	**178.3**	
Non-default tariffs					
Total non-default tariffs	–	–	–	–	
Total	**188.7**	**(0.1)**	**188.6**	**178.3**	

	Number of customers 000s	**Average non-household retail revenue per customer £**
Revenue per customer		
Total	178.3	

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 (column E) is calculated by dividing retail revenue (column B) by the number of connections (column D) (both before rounding).

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 ownership of its non-household customers to Castle Water from the date of market opening. The Company continues to recognise wholesale revenue from these customers.

Please note: we have not completed the average retail revenue per connection columns of tables 2G and 2H, as the retail revenue columns only reflect the movement of the measured income accrual. No retail revenue for non-household customers has been earned for the year ended 31 March 2019, following the Company's exit from that market on the first day of the financial year.

Price review and other segmental reporting continued

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

For the year ended 31 March 2019

Table 2H shows an analysis of non-household wastewater revenues and customer numbers by customer type.

	Wholesale charges revenue £m	Retail revenue £m	**Total revenue £m**	Number of customers 000s	**Average household retail revenue per customer £**
Default tariffs					
TB 8: Meter volume band 0-500m³	38.6	–	**38.6**	150.4	
TB 9 : Meter volume band 500-1,000m³	12.7	–	**12.7**	17.3	
TB 10: Meter volume band 1,000-5,000m³	42.5	–	**42.5**	23.3	
TB 11: Meter volume band 5,000-20,000m³	30.1	–	**30.1**	4.6	
TB 12: Meter volume band 20,000-50,000m³	12.9	–	**12.9**	0.6	
TB 13: Meter volume band 50,000-250,000m²	17.5	–	**17.5**	0.4	
TB 14: Meter volume band above 250,000m³	3.5	–	**3.5**	0.1	
TB 15: Trade effluent – metered – 0-500m³	(0.1)	–	**(0.1)**	0.9	
TB 16: Trade effluent – metered – 500m3-1,000m³	0.3	–	**0.3**	0.5	
TB 17: Trade effluent – metered – 1,000m3-5,000m³	1.1	–	**1.1**	1.1	
TB 18: Trade effluent – metered – 5,000m3-20,000m³	2.5	–	**2.5**	0.4	
TB 19: Trade effluent – metered – 20,000m3-50,000m³	3.5	–	**3.5**	0.1	
TB 20: Trade effluent – metered – 50,000m3-250,000m³	6.2	–	**6.2**	–	
TB 21: Trade effluent – metered – over 250,000m³	0.7	–	**0.7**	–	
TB 26: Wastewater – business assessed – 0-500m³	3.2	–	**3.2**	25.9	
TB 27: Wastewater – business assessed – 500-1,000m³	0.6	–	**0.6**	1.2	
TB 28: Wastewater – business assessed – 1,000-5,000m³	0.8	–	**0.8**	0.6	
TB 29: Wastewater – business assessed – 5,000-20,000m³	0.2	–	**0.2**	–	
TB 31: Wastewater – unmetered	3.6	–	**3.6**	20.3	
Total default tariffs	**180.4**	**–**	**180.4**	**247.7**	
Non-default tariffs					
Total non-default tariffs	–	–	**–**	–	
Total	180.4	–	**180.4**	247.7	

	Number of customers	**Average non-household retail revenue per customer**
Revenue by customer		
Total	247.7	

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 (column E) is calculated by dividing retail revenue (column B) by the number of connections (column D) (both before rounding).

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 ownership of its non-household customers to Castle Water from the date of market opening. The Company continues to recognise wholesale revenue from these customers.

Please note: we have not completed the average retail revenue per connection columns of tables 2G and 2H, as the retail revenue columns only reflect the movement of the measured income accrual. No retail revenue for non-household customers has been earned for the year ended 31 March 2019, following the Company's exit from that market on the first day of the financial year.

2I. Revenue analysis and wholesale control reconciliation

For the year ended 31 March 2019

This table shows the retail price control difference between the actual revenue recovered and the revenue assumed at the final determination.

	Household £m	Non-household £m	Total £m
Wholesale charge – water			
Unmeasured	408.8	6.2	415.0
Measured	243.7	182.5	426.2
Third party revenue	–	–	–
	652.5	188.7	841.2
Wholesale charge – wastewater			
Unmeasured	427.3	8.0	435.3
Measured	357.0	162.1	519.1
Third party revenue	–	–	–
	784.3	170.1	954.4
Wholesale total (exc. TTT)	1,436.8	358.8	1,795.6
Wholesale charge – TTT			
Unmeasured	25.7	0.5	26.2
Measured	21.5	9.8	31.3
Third party revenue	–	–	–
	47.2	10.3	57.5
Wholesale total (inc. TTT)	1,484.0	369.1	1,853.1
Retail revenue			
Unmeasured	90.8	–	90.8
Measured	79.3	(0.1)	79.2
Other third party revenue	–	–	–
Retail total	170.1	(0.1)	170.0
Third party revenue – non-price control			
Bulk supplies – water			4.5
Bulk supplies – wastewater			1.8
Other third party revenue			16.8
Principal services – non-price control			
Other appointed revenue			0.1
Total appointee revenue			2,046.3

	Water £m	Wastewater £m	TTT £m	Total £m
Wholesale revenue governed by price control	841.2	954.4	57.5	1,853.1
Grants and contributions[1]	28.0	19.1	–	47.1
Total revenue governed by wholesale price control	869.2	973.5	57.5	1,900.2
Amount assumed in wholesale determination	919.2	1,021.8	59.0	2,000.0
Adjustment for in-period ODI revenue	–	–	–	–
Adjustment for WRFIM	–	(6.1)	–	(6.1)
Total assumed revenue	919.2	1,015.7	59.0	1,993.9
Difference	(50.0)	(42.2)	(1.5)	(93.7)

1 Relevant capital contributions as defined in FD.

2I. Revenue analysis and wholesale control reconciliation continued

Comparison of allowed and actual revenue – Wholesale control

Wholesale revenue for 2018/19 of £1,900.2 million is £93.7 million (4.7)% lower than the amount allowed in Ofwat's PR14 Final Determination (FD).

Excluding the Outcome Delivery Incentive (ODI) penalties returned to customers early, our wholesale revenue for 2018/19 is £53.3 million (2.7)% lower than the amended allowed revenue.

Wholesale Water

Wholesale water revenue is £50.0 million (5.4)% lower than the FD, driven by:

- Core tariff revenue lower than forecast due to lower property numbers and lower consumption by metered customers; and
- Prices being set at a level £23.5 million lower than the FD to reflect ODI penalties being passed back to customers early during AMP6 in recognition of our recent performance, resulting in lower bills.

Excluding the ODI penalties that the Company chose to return to customers early, our wholesale water revenue is £26.5 million (3.0)% lower than the amended allowed revenue.

Wholesale wastewater

Wholesale wastewater revenue (including the Company's delivered element of the Thames Tideway Tunnel) is £43.7 million (4.1)% lower than the FD, driven by:

- Core tariff revenue lower than forecast due to lower property numbers and lower consumption by metered customers;
- Prices being set at a level £16.8 million lower than the FD to reflect ODI penalties being passed back to customers early during AMP6 in recognition of our recent performance, resulting in lower bills; and
- Lower than forecast capital contributions from connection and infrastructure charge revenue due to growth being slower than expected.

Excluding the ODI penalties that the Company chose to return to customers early, our wholesale wastewater revenue is £26.7 million (2.5)% lower than the amended allowed revenue.

The variance between actual revenue and allowed revenue in the wholesale water and wastewater price controls will be adjusted by Ofwat through the PR19 process for setting revenue allowances for the period 2020–2025 (known as AMP7).

The unrecovered revenue in 2018/19 attributable to variances in our customer base between outturn and the forecasts used when tariffs were set will be recovered from customers across the five years of AMP7. The unrecovered revenue in 2018/19 attributable to ODI penalties that have been returned to customers early will not be added to our revenue allowances in AMP7.

2J. Infrastructure network reinforcement cost

For the year ended 31 March 2019

Table 2J presents the infrastructure reinforcement costs, as included in totex in tables 4D and 4E (pages 283 and 284 respectively), by type of system or facility.

	Network reinforcement capex £m	On site/site specific capex (memo only) £m
Wholesale water network + (treated water distribution)		
Distribution and trunk mains	0.2	–
Pumping and storage facilities	–	–
Other	–	–
Total	**0.2**	**–**
Wholesale wastewater + (sewage collection)		
Foul and combined systems	6.1	–
Surface water only systems	–	–
Pumping and storage facilities	–	–
Other	–	–
Total	**6.1**	**–**

2K. New connections – infrastructure charges reconciliation

For the year ended 31 March 2019

Table 2K compares the revenue and costs of infrastructure charges for new connections.

	Water £m	Waste £m	**Total £m**
Impact of infrastructure charges discount			
Infrastructure charges	6.6	14.3	**20.9**
Discounts applied to infrastructure charges	–	–	**–**
Gross infrastructure charges	**6.6**	**14.3**	**20.9**
Comparison of revenue and costs			
Variance brought forward	–	–	**–**
Revenue	6.6	14.3	**20.9**
Costs	(0.2)	(6.1)	**(6.3)**
Variance carried forward	**6.4**	**8.2**	**14.6**

Disclosed as infrastructure charges within the above table are contributions from other sources that are considered to be their equivalent, though are disclosed on separate lines within Table 2E. This includes infrastructure charges received from NAV providers, and the non-domestic network charges.

A reconciliation of these charges to table 2E has been included below:

	Description	Water	Wastewater	**Total**
Infrastructure charges	Infrastructure charges	3.7	12.1	**15.8**
Other contributions (price control)	NAV infrastructure equivalent charges	1.8	1.3	**3.1**
Other contributions (non price control)	Network charges	1.1	0.9	**2.0**
Total		6.6	14.3	**20.9**

The discrepancy noted between infrastructure charges collected and network reinforcement expenditure is a result of transitional arrangements where the Company funded network reinforcement came into effect from 1 April 2018. We are forecasting recovery over the remaining four year period and consequently have not revised our rates for the 2019/20 financial year.

Independent Limited Assurance Report to the Directors of Thames Water Utilities Limited

The Board of Directors of Thames Water Utilities Limited ('Thames Water') engaged us to provide limited assurance on the information described below and set out in Thames Water's Annual Performance Repot 2019 for the year ended 31 March 2019.

Disclaimer

- PwC accepts no liability (including liability for negligence) to each recipient in relation to PwC's report. The report is provided to each recipient for information purposes only. If a recipient relies on PwC's report, it does so entirely at its own risk;
- No recipient will bring a claim against PwC which relates to the access to the report by a recipient;
- Neither PwC's report, nor information obtained from it, may be made available to anyone else without PwC's prior written consent, except where required by law or regulation;
- PwC's report was prepared with Thames Water's interests in mind. It was not prepared with any recipient's interests in mind or for its use. PwC's report is not a substitute for any enquiries that a recipient should make. PwC's report is based on historical information. Any projection of such information or PwC's opinion or views thereon to future periods is subject to the risk that changes may occur after the report is issued. For these reasons, such projection of information to future periods would be inappropriate;
- PwC will be entitled to the benefit of and to enforce these terms; and
- These terms and any dispute arising from them, whether contractual or non-contractual, are subject to English law and the exclusive jurisdiction of English courts.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 March 2019 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of our report.

Selected Information

The scope of our work was limited to assurance over the following information in Thames Water's Annual Performance Report 2018-19 (the "Selected Information").

- 3A – Outcome performance table;
- 3B – Sub-performance measure table;
- 3C – Abstraction incentive mechanism
- 3D – Service incentive mechanism; and
- 4A – Non-financial information.

The Selected Information and the Reporting Criteria against which it was assessed are summarised in our report which is disclosed in pages 276 to 281 of the Annual Performance Report. Our assurance does not extend to information in respect of earlier periods or to any other information included in the Thames Water Annual Performance Report 2018-19.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our Independence and Quality Control

We have complied with the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We also apply International Standard on Quality Control (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Understanding reporting and measurement criteria

The Selected Information needs to be read and understood together with the Reporting Criteria, which Thames Water is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are as at 31 March 2019.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- Checked the calculation of the performance level arising from Thames Water's PCs in the year against Thames Water's reporting criteria;
- Through limited testing on a selective basis, verified the underlying data or supporting information used to calculate each PC in 'selected information';
- Made enquiries of relevant company management, personnel and third parties; and
- Considered significant estimates and judgements made by management in the preparation of the selected information.

Thames Water's responsibilities

The Directors of Thames Water are responsible for:

- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- Establishing objective Reporting Criteria for preparing the Selected Information;
- Measuring and reporting the Selected Information based on the Reporting Criteria; and
- The content of the Thames Water Annual Performance Report 2018-19.

Our responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the Directors of Thames Water.

This report, including our conclusions, has been prepared solely for the Board of Directors of Thames Water in accordance with the agreement between us dated 5 April 2019, to assist the Directors in reporting Thames Water's performance and activities. We permit this report to be disclosed in the Thames Water Annual Performance Report 2018-19 for the year ended 31 March 2019, to assist the Directors in responding to their regulatory responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Thames Water for our work or this report except where terms are expressly agreed in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
27 June 2019

Performance summary

3A. Outcome performance table

For the year ended 31 March 2019

Performance commitment	Units description	Decimal places	2015-16 performance level – actual	2016-17 performance level – actual	2017-18 performance level – SP: actual	2018-19 performance level – actual	"2018/19 CPL (for PCs with annual targets)"	"AMP CPL (for PCs with AMP end targets)"	2018/19 CPL met?	2018/19 notional reward or penalty accrued	"2018/19 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	96	96	88	95	N/A	No				
WA2: Number of written complaints per 10,000 connected properties – water	No. written complaints /10,000 properties	2	8.84	9.12	12.39	18.61	7.55	N/A	No				
WA3: Customer satisfaction surveys (internal CSAT monitor) – water	TW internal Customer satisfaction score (mean score out of 5)	2	4.44	4.50	4.42	4.39	4.55	N/A	No				
WA4: Reduced water consumption from issuing water efficiency devices to customers	Ml/d reduced water consumption (cumulative)	2	–	–	20.22	28.25	N/A	15.45	–	–		–	
WA5: Provide a free repair service for customers with a customer side leak outside of the property	Number against target above annual baseline no.	0	1,404	2,089	4,834	7,957	900	N/A	Yes				
WB1: Asset health water infrastructure	Asset health indicator	na	Marginal	Marginal	Marginal	Marginal	Stable	N/A	No	Underperformance payment	-4.6750	Underperformance payment	-23.3750
WB2: Asset health water non-infrastructure	Asset health indicator	na	Stable	Stable	Stable	Stable	Stable	N/A	Yes	–		–	
WB3: Compliance with drinking water quality standards (MZC) – Ofwat/ DWI KPI	Mean zonal compliance () %	2	99.96	99.96	99.96	99.96	100	N/A	No	Underperformance payment deadband		Underperformance payment deadband	
WB4: Properties experiencing chronic low pressure (DG2)	No. of properties with low pressure (DG2) at the end of the reporting year	0	0	5	6	7	34	N/A	Yes				
WB5: Average hours lost supply per property served, due to interruptions > 4 hours	Hours lost supply per property served	2	0.12	0.12	0.21	0.26	0.13	N/A	No	Underperformance payment	-10.6700	Underperformance payment	-15.0900
WB6: Security of Supply Index – Ofwat KPI	Security of Supply Index (SOSI)	0	100	99	97	98	100	N/A	No	Underperformance payment	-4.5300	Underperformance payment	-13.5900
WB7: Compliance with SEMD advice notes (with or without derogation)	% compliance with SEMD advice notes	0	–	–	39	42	N/A	100	–	–		–	
WB8: Ml/d of sites made resilient to future extreme rainfall events	Ml/d of WTWs made resilient	0	–	–	4	747	N/A	1015	–	–		Underperformance payment	-0.3550
WC1: Greenhouse gas emissions from water operations	$ktCO_2e$	1	284.8	160.7	46.2	45.7	146.6 but rebaselined to 164.4	N/A	Yes				
WC2: Leakage	Megalitres per day (Ml/d) (annual average)	0	642	677	695	690	612	N/A	No	Underperformance payment	-35.1000	Underperformance payment	-70.2000
WC3: Abstraction Incentive Mechanism (AIM)			–	0 (Refer to Table 3C)	-1676.29	-170.69	N/A	N/A	Yes				
WC4: We will educate our existing and future customers	No. of children directly engaged	0	17,491	20,898	21,341	24,897	18,000	N/A	Yes				
WC5: Deliver 100% of agreed measures to meet new environmental regulations	% of agreed schemes completed	0	Not available	Not available	Not available	Not available	N/A	100	–	–		–	
WD1: Energy imported less energy exported	GWh (gigawatt-hours)	0	496	491	510	520	472	N/A	No				
SA1: Improve handling of written complaints by increasing first time resolution – wastewater	% written complaints resolved 1st time	0	87	93	94	84	95	N/A	No				
SA2: Number of written complaints per 10,000 connected properties – wastewater	No. written complaints /10,000 properties	2	6.46	6.21	4.39	5.34	6.25	N/A	Yes				

Performance commitment	Units description	Decimal places	2015-16 performance level – actual	2016-17 performance level – actual	2017-18 performance level – SP: actual	2018-19 performance level – actual	"2018/19 CPL (for PCs with annual targets)"	"AMP CPL (for PCs with AMP end targets)"	2018/19 CPL met?	2018/19 notional reward or penalty accrued	"2018/19 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)"
SA3: Customer satisfaction surveys (internal CSAT monitor) -wastewater	TW internal Customer satisfaction score (mean score out of 5)	2	4.50	4.57	4.55	4.58	4.65	N/A	No				
SB1: Asset health wastewater non-infrastructure	Asset health indicator	na	Stable	Stable	Stable	Stable	Stable	N/A	Yes	–		–	
SB2: Asset health wastewater infrastructure	Asset health indicator	na	Stable	Stable	Stable	Stable	Stable	N/A	Yes	–		–	
SB3: Properties protected from flooding due to rainfall (including Counters Creek project)	No. properties protected from flooding due to rainfall	0	–	–	19	49	N/A	668 excluding Counters Creek (including CC 2127)	–	–		–	
SB4: Number of internal flooding incidents, excluding those due to overloaded sewers (SFOC)	No. of internal sewer flooding (other causes) incidents	0	1,403	1,214	1,062	1,032	1,085	N/A	Yes	Outperformance payment	2.9150	Underperformance payment	-5.4950
SB5: Contributing area disconnected from combined sewers by retrofitting sustainable drainage	No. of hectares (cumulative)	0	–	–	–	0	N/A	20	–	–		–	
SB6: Compliance with SEMD advice notes (with or without derogation)	% compliance with SEMD advice notes	0	–	–	42	45	N/A	100	–	–		–	
SB7: Population equivalent of sites made resilient to future extreme rainfall events	Population equivalent (cumulative)	0	–	–	495,160	962,842	N/A	1,700,000	–	–		Underperformance payment	-0.0708
SB8: Lee Tunnel including Shaft G	Scheme delivery	na	Scheme delivered	Scheme delivered 2015/16	Scheme delivered 2015/16	Scheme delivered 2015/16	N/A	N/A	–	–		–	
SB9: Deephams Wastewater Treatment Works	Scheme delivery	na	–	Scheme delivered	Scheme delivered 2016/17	Scheme delivered 2016/17	N/A	N/A	–	–		–	
SC1: Greenhouse gas emissions from wastewater operations	ktCO₂e	1	468.5	346.7	231.7	230.0	Rebaseline target of 281	N/A	Yes				
SC2: Total category 1-3 pollution incidents from sewage related premises	No. of pollution incidents (cats 1, 2 and 3)	0	232	315	292	295	340	N/A	Yes	–		–	
SC3: Sewage treatment works discharge compliance	% WwTW discharge compliance	2	99.13	98.28	99.43	98.85	100	N/A	No	Underperformance payment	-0.1153	Underperformance payment	-2.4223
SC4: Water bodies improved or protected from deterioration as a result of Thames Water's activities	No. of water bodies improved or protected by catchment management	0	–	–	–	–	N/A	13	–				
SC5: Satisfactory sludge disposal compliance	% satisfactory sludge disposal compliance	0	100	100	100	100	100	N/A	Yes				
SC6: We will educate our existing and future customers	No. of children directly engaged	0	17,491	20,898	21,341	24,897	18,000	N/A	Yes				
SC7: Modelled reduction in properties affected by odour	No. of properties (modelled cumulative reduction)	0	–	1,305	1,980	8,931	6,593	6,593	Yes	Outperformance payment	0.5144	Outperformance payment	1.1858
SC8: Deliver 100% of agreed measures to meet new environmental regulations	% of agreed schemes completed	0	Not available	Not available	Not available	Not available	N/A	100	–	–		–	
SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	Kilograms of phosphorus removed per day	1	–	–	–	–	N/A	59.30	–	–		–	
SD1: Energy imported less energy exported	GWh (gigawatt-hours)	0	533	477	431	396	303	N/A	No				
T1A: Successful procurement of the Infrastructure Provider (IP)	Infrastructure Provider (IP) procurement	na	Complete	Scheme delivered 2015/16	Scheme delivered 2015/16	Scheme delivered 2015/16	N/A	N/A	–				

Performance summary continued

3A. Outcome performance table continued

For the year ended 31 March 2019

Performance commitment	Units description	Decimal places	2015-16 performance level – actual	2016-17 performance level – actual	2017-18 performance level – SP: actual	2018-19 performance level – actual	"2018/19 CPL (for PCs with annual targets)"	"AMP CPL (for PCs with AMP end targets)"	2018/19 CPL met?	2018/19 notional reward or penalty accrued	"2018/19 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)"
T1B: Thames Water will fulfil its land related commitments in line with the TTT programme requirements	Land related commitments	na	13	Additional 13 sites access granted in year. In line with Tideway requirements	13	3	Acquire land access rights in line with programme in the development consent order and programme timetable to be agreed with Ofwat	N/A	Yes				
T1C: Completion of category 2 and 3 construction works and timely availability of sites to the IP	No. of sites (cumulative)	0	9	19	21	21	21	23	Yes	–		–	
T2: Thames Water will engage effectively with the IP, and other stakeholders, both in terms of integration and assurance	Effective engagement with IP and stakeholders	na	–	Effective engagement	Yes	Yes	Effective engagement	N/A	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*	Engagement to build TTT understanding	na	Yes	No	No	Yes	Improving trend	N/A	Yes				
RA1: Minimise the number of written complaints received from customers (relating to charging and billing)	No. written complaints /10,000 properties	0	14	19	17	18	17	N/A	No				
RA2: Improve handling of written complaints by increasing first time resolution – charging and billing	% written complaints resolved 1st time	0	92	94	95	88	95	N/A	No				
RA3: Improve customer satisfaction of retail customers – charging and billing service	TW internal Customer satisfaction score (mean score out of 5)	2	4.61	4.63	4.66	4.58	4.60	N/A	No				
RA4: Improve customer satisfaction of retail customers – operations contact centre	TW internal Customer satisfaction score (mean score out of 5)	2	4.27	4.46	4.43	4.44	4.60	N/A	No				
RA5: Increase the number of bills based on actual meter reads (in cycle)	% bills based on actual meter reads	0	91	97	97	99	96	N/A	Yes				
RA6: Service incentive mechanism (SIM)	Service incentive mechanism (SIM) score	1	76.7	77.3	78.4	75.0	N/A	N/A	–				
RB1: Implement new online account management for customers supported by web–chat	Delivery status	na	Limited online	Limited online	New online self serve channel	Online self serve channel	New online self serve channel	N/A	Yes	-			
RC1: Increase the number of customers on payment plans (excluding Thames Tideway Tunnel)	% of customers on DD payment plans	0	54	55	58	58	57	N/A	Yes				
RC2: Increase cash collection rates (excluding Thames Tideway Tunnel)	% of cash collected from billing in the year	1	88.2	87.9	89.2	87.9	89.6	N/A	No				

3B – Sub-measure performance table

For the 12 months ended 31 March 2019

"PC/sub-measure ID"	PC/sub-measure	Unit	2017-18 performance level – actual	2018-19 performance level – actual	2018-19 PCL met?
00	WB1: Asset health water infrastructure	category	Marginal	Marginal	No
01	Total bursts	nr	8,546	10,388	No
02	Unplanned interruptions to customer >12 hours (DG3)	nr	23,457	16,418	No
03	Iron mean zonal non-compliance	%	0.07	0.16	Yes
04	Inadequate pressure (DG2)	nr	206	7	Yes
05	Planned network rehabilitation (kilometres)	nr	142.75	172.34	–
06	Customer complaints discolouration white water (nr per 1,000 population)	nr	0.17	0.16	Yes
00	WB2: Asset health water non-infrastructure	category	Stable	Stable	Yes
01	Disinfection index (DWI)	%	99.96	99.99	Yes
02	Reservoir integrity index	%	–	–	Yes
03	DWQ compliance measures – turbidity (number of sites)	nr	1	–	Yes
04	Process control index	%	100.00	100.00	Yes
05	DWQ compliance measures – enforcement actions	nr	–	–	Yes
06	Water quality complaints for chlorine (nr per 1,000 population)	nr	0.050	0.048	Yes
07	Water quality complaints for hardness (nr per 1,000 population)	nr	0.010	0.006	Yes
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	22	45	No
02	Sewage treatment works discharges failing numeric consents %	%	0.57	1.15	No
03	Total population equivalent served by sewage treatment works failing look-up table consents	%	0.00	0.00	No
00	SB2: Asset health wastewater infrastructure	category	Stable	Stable	Yes
01	Number of sewer collapses	nr	321	365	Yes
02	Number of sewer blockages	nr	77,402	79,702	Yes
03	Pollution incidents (cat 1-3)	nr	241	204	Yes
04	Properties internally flooded	nr	969	968	Yes

Performance summary continued

3C. AIM table

For the year ended 31 March 2019

Abstraction site	2018-19 AIM performance Ml	2018-19 normalised AIM performance Nr	Cumulative AIM performance 2016-17 onwards Ml	Cumulative normalised AIM performance 2016-17 onwards Nr	Contextual information relating to AIM performance
RIVER LEE AT NEW GAUGE PUMPING STATION (London WRZ)	–	–	(871.3)	(0.22)	River flows did not go below the AIM trigger in 2018/19
PANGBOURNE (Kennet Valley WRZ)	(13.8)	(0.05)	(508.6)	(0.22)	AIM flow trigger was active in 2018/19 and abstraction at Pangbourne was maintained below the AIM baseline abstraction rate
AXFORD PUMPING STATION (SWOX WRZ)	(156.9)	(0.09)	(321.3)	(0.18)	AIM flow trigger was active in 2018/19 and abstraction at Axford was maintained below the AIM baseline abstraction rate. This was achieved despite a dry year in which water resources were a challenge.
PANN MILL PUMPING STATION (SWA WRZ)	–	–	(96.0)	(0.08)	River flows did not go below the AIM trigger in 2018/19
NORTH ORPINGTON PS (London WRZ)	–	–	(49.8)	(0.54)	River flows did not go below the AIM trigger in 2018/19
	(170.7)	(0.14)	(1,847.0)	(1.24)	

3D. SIM table

For the year ended 31 March 2019

	Units	Score
Qualitative performance		
1st survey score	score	4.17
2nd survey score	score	4.09
3rd survey score	score	4.06
4th survey score	score	4.12
Qualitative SIM score (out of 75)	score	58.31
Quantitative performance		
Quantitative composite score	score	165.67
Quantitative SIM score (out of 25)	calc	16.72
SIM score		
Total annual SIM score (out of 100)	calc	75.03

Additional regulatory information

4A. Non-financial information

For the year ended 31 March 2019

This table shows information with regards to the water consumption, vacant households and wholesale water and wastewater volumes.

	Unmeasured	Measured
Retail – household		
Number of void households ('000s)	101.5	93.1
Per capita consumption (excluding supply pipe leakage) l/h/d	157.9	126.4

	Water	Wastewater
Wholesale		
Volume (Ml/d)		
Bulk supply export	94.8	10.0
Bulk supply import	0.5	4.9
Distribution input	2,696.6	

4B. Wholesale totex analysis

For the year ended 31 March 2019

Table 4B shows the totex expenditure in out-turn prices for wholesale operations, split by the price controls as required by Ofwat. The information shows the totex expenditure for 2018/19 as well as cumulatively for the AMP.

	Current year			Cumulative		
	Water £m	Wastewater £m	TTT £m	Water £m	Wastewater £m	TTT £m
Actual totex	988.2	855.9	33.4	3,429.4	3,570.9	282.1
Less: Items excluded from the menu						
Third party costs	6.5	3.4	–	26.1	15.9	–
Pension deficit recovery costs	–	–	–	29.8	27.2	–
Other "rule book" adjustments	–	1.9	(13.8)	–	24.5	44.7
Total items excluded from the menu	6.5	5.3	(13.8)	55.9	67.6	44.7
Add: Transition expenditure						
Transition expenditure	–	–	–	26.1	54.6	–
Adjusted actual totex	981.7	850.6	47.2	3,399.6	3,557.9	237.4
Adjusted actual totex – base year prices	848.0	734.8	40.7	3,065.7	3,224.2	217.1
Allowed totex based on final menu choice – base year prices	677.2	703.2	51.1	2,661.3	3,131.9	325.3
Cumulative totex over/(under) spend	170.8	31.6	(10.4)	404.4	92.3	(108.2)

As part of the price review process for AMP6, Ofwat proposed a "totex sharing mechanism" for water companies, under which approximately half of any cumulative totex under or overspend compared to the Ofwat allowance, would be shared with customers, through adjustments to their bills after 2020.

Table 4B shows our actual totex for 2018/19 alongside our cumulative totex for the AMP to date; a number of adjustments are made to these figures to allow us to compare our spend against the allowance in each year per the Final Determination ("FD") for the five year period 2015–2020.

The adjustments to totex include:

- "Items excluded from the menu" – these are expenses that we have incurred that were not included in the totex sharing mechanism. Examples of these items include third party costs (such as the cost of providing bulk supplies), pension deficit recovery costs and other "rule book" adjustments such as fines. In the TTT price control, we also adjust for purchases of land required to develop the TTT, that are subject to a "100:0" sharing rate with customers; these costs are excluded from totex in table 4B above, in line with Ofwat guidance because customers receive the full benefit of any increase in land values when they are sold at a future date.
- Transition expenditure – these are any costs incurred in the period 2010–2015 that deliver performance in 2015–2020 (no adjustment in 2017/18).
- Adjustment to base year prices – the FD defines totex in 2012/13 prices, so to compare against the FD, we adjust for inflation to a consistent price base.

In 2018/19, we have amended the cumulative adjusted total totex in the TTT price control for rental income of £4.8 million in 2015/16. Of this adjustment, £2.6 million relates to amounts subject to the 100:0 sharing rate.

Strategic report
Governance
Financial statements
Annual performance report

4B. Wholesale totex analysis continued

Our performance against the FD has been analysed for each price control below:

Water:
In 2018/19, our totex for water of £848.0 million in base year prices (2012/13) was £170.8 million higher than the FD allowance of £677.2 million. This additional spend particularly reflects increased expenditure to improve our leakage and resilience. The main items that make up the overspend include the following:

- Increased costs for leakage detection and reduction in order to get our leakage performance back on track;
- Increased power costs as a result of price increases and higher water treatment volumes during the dry and hot summer (to meet higher volume demands we were required to bring additional (and more operationally expensive) sites online).
- Increased streetworks costs particularly in relation to parking bay costs, rentals and permits as well as an increase in overall job volumes;
- Higher employment costs relating to general FTE increases, pay increases and the impact of guaranteed minimum pensions as a result of a high court ruling in October 2018; and
- Increased costs associated with preparing and assuring our business plan submissions.

Cumulatively, our totex for water of £3,065.7 million is £404.4 million over what we were allowed in the FD. Of this overspend, we acknowledged in 2017/18 that c.£90 million incurred to date was related to inefficient leakage costs. Under the totex sharing mechanism, approximately £46 million of these costs would have been shared with customers through adjustments to their bills in AMP7; however, we do not think this is fair, and our shareholders committed in 2017/18 to fully bear this cost.

Waste:
In 2018/19, our totex for waste of £734.8 million in base year prices (2012/13) was £31.6 million higher than our FD allowance (£703.2 million). This additional spend reflects increased expenditure for the following:

- Increased power and materials costs as a result of price increases;
- Increased power costs as a result of delays to generation projects in years 1-3.
- Increased plant, pump and tank hire following weather events and associated asset failures.
- Higher employment costs relating to general FTE increases, pay increases and the impact of guaranteed minimum pensions as a result of a high court ruling in October 2018; and
- Increased costs associated with preparing and assuring our business plan submissions.

TTT:
In 2018/19, our totex for TTT of £40.7 million in base year prices (2012/13) was £10.4 million lower than the FD allowance of £51.1 million and cumulatively, our totex for TTT of £217.1 million is £108.2 million under the totex allowance. This is primarily due to savings to date in the development and delivery phases of the project.

4C. Impact of AMP performance to date on RCV

For the year ended 31 March 2019

Table 4C shows the projected adjustments to the regulatory capital value that are expected at the next price review.

	Water	Wastewater	TTT
Cumulative totex over/under spend so far in the price control period	404.4	92.3	(108.2)
Customer share of cumulative totex over/under spend	231.2	53.3	(62.1)
RCV element of cumulative totex over/under spend	213.5	59.9	(156.4)
Adjustment for ODI outperformance payment or underperformance payment	–	–	–
RCV determined at FD at 31 March	5,937.9	6,877.6	1,458.3
Projected "shadow" RCV	**6,151.4**	**6,937.5**	**1,301.9**

The RCV element of the totex over/(underspend) is a calculated value which reflects the difference between allowed and actual totex, multiplied by the average AMP6 slow money percentage. For the TTT price control, this includes any over/(underspend) on land, which passes 100% to customers, through an RCV adjustment.

4D. Totex analysis – wholesale water

For the year ended 31 March 2019

Table 4D provides information about the different activities undertaken as part of delivering upstream services with a breakdown of the total expenditure for carrying out the supply of water services.

	Water resources		Network +				
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	**Total £m**
Operating expenditure							
Power	–	14.4	0.3	–	13.8	34.7	**63.2**
Income treated as negative expenditure	–	(0.2)	–	–	(0.1)	–	**(0.3)**
Abstraction charges/discharge consents	13.1	–	–	–	–	–	**13.1**
Bulk supply	–	4.3	–	–	–	0.1	**4.4**
Other operating expenditure							
Renewals expensed in year (infrastructure)	–	–	–	–	–	63.1	**63.1**
Renewals expensed in year (non-infrastructure)	–	–	–	–	–	–	**–**
Other operating expenditure excluding renewals	0.4	22.6	1.7	–	60.7	194.7	**280.1**
Local authority and cumulo rates	–	3.6	6.5	–	5.9	63.4	**79.4**
Total operating expenditure excluding third party services	**13.5**	**44.7**	**8.5**	**–**	**80.3**	**356.0**	**503.0**
Third party services	–	2.5	–	–	–	3.6	**6.1**
Total operating expenditure	**13.5**	**47.2**	**8.5**	**–**	**80.3**	**359.6**	**509.1**
Capital expenditure							
Maintaining the long-term capability of the assets – infra	–	3.9	6.6	–	–	160.9	**171.4**
Maintaining the long-term capability of the assets – non-infra	–	4.6	1.7	–	93.0	91.3	**192.5**
Other capital expenditure – infra	–	–	0.2	–	–	84.3	**84.5**
Other capital expenditure – non-infra	–	12.7	0.1	–	12.0	50.6	**73.5**
Infrastructure network reinforcement	–	–	–	–	–	0.2	**0.2**
Total gross capital expenditure (excluding third party)	**–**	**21.2**	**8.6**	**–**	**105.0**	**387.3**	**522.1**
Third party services	–	–	–	–	–	0.4	**0.4**
Total gross capital expenditure	–	21.2	8.6	–	105.0	387.7	**522.5**
Grants and contributions	–	–	0.1	–	–	43.3	**43.4**
Totex	**13.5**	**68.4**	**17.0**	**–**	**185.3**	**704.0**	**988.2**
Cash expenditure							
Pension deficit recovery payment	–	–	–	–	–	–	**–**
Other cash items	–	–	–	–	–	–	**–**
Totex including cash items	**13.5**	**68.4**	**17.0**	**–**	**185.3**	**704.0**	**988.2**

					Water treatment	Treated water distribution
Unit cost information (operating expenditure)	Licensed volume available	Volume abstracted	Volume transported	Average volume stored	Distribution input volume	Distribution input volume
Volume (Ml)	1,547,572.0	1,069,917.3	88,557.2	–	996,646.1	986,680.6
Unit cost (£/Ml)	8.7	44.1	96.9	–	80.5	364.4
Population	10,012.6	10,012.6	10,012.6	10,012.6	10,012.6	10,012.6
Unit cost (£/pop)	1.3	4.7	0.9	–	8.0	35.9

Additional regulatory information continued

4E. Totex analysis – wholesale wastewater
For the year ended 31 March 2019

Table 4E provides information about the different activities undertaken as part of delivering upstream services with a breakdown of the total expenditure for carrying out the supply of sewerage services

	Network+ sewage collection			Network+ sewage treatment		Sludge			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	**Total £m**
Operating expenditure									
Power	7.1	2.3	1.3	67.3	–	–	(18.9)	–	**59.1**
Income treated as negative expenditure	–	–	–	(0.3)	–	–	(12.1)	(1.0)	**(13.4)**
Discharge consents	1.3	0.4	0.2	4.8	–	–	0.1	–	**6.8**
Bulk discharge	–	–	–	3.0	–	–	0.1	–	**3.1**
Other operating expenditure									
Renewals expensed in year (infrastructure)	47.1	14.9	8.6	–	–	–	–	–	**70.6**
Renewals expensed in year (non-infrastructure)	–	–	–	–	–	–	–	–	**–**
Other operating expenditure excluding renewals	55.8	15.4	7.5	106.0	0.4	7.1	48.8	20.2	**261.2**
Local authority rates and cumulo rates	–	–	–	27.7	–	–	8.8	0.9	**37.4**
Total operating expenditure excluding third party services	**111.3**	**33.0**	**17.6**	**208.5**	**0.4**	**7.1**	**26.8**	**20.1**	**424.8**
Third party services	2.4	0.1	–	0.6	–	–	–	–	**3.1**
Total operating expenditure	**113.7**	**33.1**	**17.6**	**209.1**	**0.4**	**7.1**	**26.8**	**20.1**	**427.9**
Capital expenditure									
Maintaining the long-term capability of the assets	87.9	0.2	–	–	–	1.0	–	–	**89.1**
Maintaining the long-term capability of the assets – non-infra	43.6	4.5	2.3	108.9	–	0.5	58.8	8.4	**227.0**
Other capital expenditure – infra	42.2	(0.4)	–	–	–	–	–	–	**41.8**
Other capital expenditure – non-infra	15.0	–	–	80.2	–	–	–	–	**95.2**
Infrastructure network reinforcement	6.1	–	–	–	–	–	–	–	**6.1**
Total gross capital expenditure (excluding third party)	**194.8**	**4.3**	**2.3**	**189.1**	**–**	**1.5**	**58.8**	**8.4**	**459.2**
Third party services	0.2	–	–	–	–	–	–	–	**0.2**
Total gross capital expenditure	**195.0**	**4.3**	**2.3**	**189.1**	**–**	**1.5**	**58.8**	**8.4**	**459.4**
Grants and contributions	30.6	0.2	–	0.6	–	–	–	–	**31.4**
Totex	**278.1**	**37.2**	**19.9**	**397.6**	**0.4**	**8.6**	**85.6**	**28.5**	**855.9**
Cash expenditure									
Pension deficit recovery payments	–	–	–	–	–	–	–	–	**–**
Other cash items	–	–	–	–	–	–	–	–	**–**
Totex including cash items	**278.1**	**37.2**	**19.9**	**397.6**	**0.4**	**8.6**	**85.6**	**28.5**	**855.9**

Unit cost information (operating expenditure)	Volume collected Ml	Volume collected Ml	Volume collected Ml	Biochemical Oxygen Demand (BOD) Tonnes	Biochemical Oxygen Demand (BOD) Tonnes	Volume transported m³	Dried solid mass treated ttds	Dried solid mass disposed ttds
Units	707,162.2	280,329.8	154,651.6	348,693.8	8,280.2	934,262.5	373.8	373.2
Unit cost (£/unit)	160.6	117.8	114.3	599.9	52.4	7.6	71,899.6	53,865.3
Population	15,321.5	15,321.5	15,321.5	15,321.5	15,321.5	15,321.5	15,321.5	15,321.5
Unit cost (£/pop)	7.4	2.2	1.2	13.7	–	0.5	1.8	1.3

4F. Operating cost analysis – household retail

For the year ended 31 March 2019

This table sets out the operating costs for the household retail business as defined by the Ofwat price control

	Household unmeasured				Household measured				
	Water only £m	Wastewater only £m	Water and sewerage £m	**Total £m**	Water only £m	Wastewater only £m	Water and sewerage £m	**Total £m**	Total £m
Operating expenditure									
Customer services	0.3	5.5	28.9	**34.7**	0.4	7.9	23.7	**32.0**	66.7
Debt management	0.1	1.0	4.5	**5.6**	0.1	1.4	3.2	**4.7**	10.3
Doubtful debts	0.2	2.5	29.6	**32.3**	0.2	3.5	21.3	**25.0**	57.3
Meter reading	–	–	–	**–**	0.1	1.9	8.2	**10.2**	10.2
Other operating expenditure	0.1	4.3	11.0	**15.4**	0.1	6.0	7.7	**13.8**	29.2
Total operating expenditure excluding third party services	**0.7**	**13.3**	**74.0**	**88.0**	**0.9**	**20.7**	**64.1**	**85.7**	**173.7**
Third party services operating expenditure	–	–	–	**–**	–	–	–	**–**	–
Total operating expenditure	**0.7**	**13.3**	**74.0**	**88.0**	**0.9**	**20.7**	**64.1**	**85.7**	**173.7**
Depreciation – tangible fixed assets									
On assets existing at 31 March 2015	–	–	0.1	**0.1**	–	–	0.1	**0.1**	0.2
On assets acquired since 1 April 2015	–	–	1.7	**1.7**	–	–	1.2	**1.2**	2.9
Amortisation – Intangible fixed assets									
On assets existing at 31 March 2015	–	–	0.5	**0.5**	–	–	0.3	**0.3**	0.8
On assets acquired since 1 April 2015	–	–	0.6	**0.6**	–	–	0.4	**0.4**	1.0
Total operating costs	**0.7**	**13.3**	**76.9**	**90.9**	**0.9**	**20.7**	**66.1**	**87.7**	**178.6**
Capital expenditure	**0.2**	**0.1**	**16.2**	**16.5**	**0.2**	**0.2**	**11.5**	**11.9**	**28.4**

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

Demand-side water efficiency – gross expenditure	**8.9**
Demand-side water efficiency – expenditure funded by wholesale	**(8.9)**
Demand-side water efficiency – net retail expenditure	**–**
Customer-side leak repairs – gross expenditure	**9.6**
Customer-side leak repairs – expenditure funded by wholesale	**(9.6)**
Customer-side leak repairs – net retail expenditure	**–**

Additional regulatory information continued

4G. Wholesale current cost financial performance

For the year ended 31 March 2019

Table 4G shows our financial performance in current cost terms.

	Water £m	Wastewater £m	TTT £m	**Total £m**
Revenue	857.2	961.6	57.5	**1,876.3**
Operating expenditure	(509.1)	(427.9)	–	**(937.0)**
Capital maintenance charges	(371.8)	(421.4)	(0.7)	**(793.9)**
Other operating income	3.7	(8.5)	–	**(4.8)**
Current cost operating profit	**(20.0)**	**103.8**	**56.8**	**140.6**
Other income	72.7	84.3	17.9	**174.9**
Interest income	17.5	20.2	4.3	**42.0**
Interest expense	(217.5)	(252.0)	(53.4)	**(522.9)**
Other interest expense	(2.7)	(3.2)	(0.7)	**(6.6)**
Current cost profit before tax and fair value movements	**(150.0)**	**(46.9)**	**24.9**	**(172.0)**
Fair value gains/(losses) on financial instruments	(8.1)	(9.4)	(2.0)	**(19.5)**
Current cost profit before tax	**(158.1)**	**(56.3)**	**22.9**	**(191.5)**

4H. Financial metrics

For the year ended 31 March 2019

This table shows our key financial metrics: measures of financial performance and financial position, revenue earned, earnings before interest, tax, depreciation and amortisation and an analysis of our borrowings in terms of interest payable and the maturity profile of those borrowings.

	Units	Current year	AMP to date
Financial indicators			
Net debt	£m	11,688.545	
Regulated equity	£m	2,585.162	
Regulated gearing	%	81.89%	
Post tax return on regulated equity	%	2.58%	
RORE (return on regulated equity)	%	3.47%	4.49%
Dividend yield	%	1.80%	
Retail profit margin – household	%	(0.50)%	
Retail profit margin – non-household	%	(3.49)%	
Credit rating	n/a	Baa1 negative	
Return on RCV	%	3.92%	
Dividend cover	dec	0.84	
Funds from operations (FFO)	£m	600.995	
Interest cover (cash)	dec	2.56	
Adjusted interest cover (cash)	dec	1.15	
FFO/debt	dec	0.05	
Effective tax rate	%	0.32%	
Free cash flow (RCF)	£m	544.436	
RCF/capex	dec	0.51	
Revenue and earnings			
Revenue (actual)	£m	2,023.225	
EBITDA (actual)	£m	899.783	
Movement in RORE			
Base return	%	5.60%	5.61%
Totex out/(under) performance	%	(2.26)%	(1.44)%
Retail cost out/(under) performance	%	(0.35)%	(0.39)%
ODI out/(under) performance	%	(0.92)%	(0.51)%
Financing out/(under) performance	%	1.76%	1.02%
Other factors	%	(0.37)%	0.20%
Regulatory return for the year	%	3.47%	4.49%
Borrowings			
Proportion of borrowings which are fixed rate	%	50.14%	
Proportion of borrowings which are floating rate	%	0.67%	
Proportion of borrowings which are index linked	%	49.19%	
Proportion of borrowings due within 1 year or less	%	8.03%	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	1.69%	
Proportion of borrowings due in more than 2 years but no more than 5 years	%	16.26%	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	43.50%	
Proportion of borrowings due in more than 20 years	%	30.52%	

Additional information on RORE

"Totex out/(under) performance" includes the following items:

- Removing any differences between expenditure and allowance associated with Counters Creek: -0.45 % (Cumulative: -0.34) %
- Recognising that we bear 100 % of the costs associated with inefficient expenditure on leakage reduction[1]: -0.01 % (Cumulative: -0.20) %

"Other factors" correspond to the sale of the non-household retail business on 1 April 2017. This recognises i) the net proceeds of the sale; ii) removing the margin on non-household retail included in the base allowed return; iii) remaining costs incurred within this price control until the end of AMP6.

1 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.
2 As identified in "Notice of Ofwat's proposal to impose a penalty on Thames Water Utilities Limited", Ofwat, June 2018

Additional regulatory information continued

4I. Financial derivatives

As at 31 March 2019

This table provides an analysis of our portfolio of financial derivatives.

	Financial Derivatives							
	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March	"Interest rate (weighted average for 12 months to 31 March 2019)"	
Pro forma 4I	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)								
Floating to fixed rate	–	1,700.0	550.0	2,250.0	201.5	–	3.20	1.00
Floating from fixed rate	–	1,620.9	300.0	1,920.9	(5.3)	–	1.00	1.10
Floating to index linked	–	–	20.0	20.0	1.9	1.9	3.70	3.40
Floating from index linked	–	–	–	–	–	–	–	–
Fixed to index-linked	–	–	1,123.8	1,123.8	251.5	237.5	4.30	5.20
Fixed from index-linked	–	–	–	–	–	–	–	–
Total	–	3,320.9	1,993.8	5,314.7	449.6	239.4		
Foreign Exchange								
Cross currency swap USD	–	38.7	200.4	239.1	(1.8)	–	2.30	3.50
Cross currency swap EUR	–	–	–	–	–	–	–	–
Cross currency swap YEN	–	–	153.6	153.6	39.7	–	6.60	3.30
Cross currency swap Other	–	–	–	–	–	–	–	–
Total	–	38.7	354.0	392.7	37.9	–		
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	–	–	–	–	–	–	–	–
Forward currency contracts CAD	–	–	–	–	–	–	–	–
Forward currency contracts AUD	–	–	–	–	–	–	–	–
Forward currency contracts HKD	–	–	–	–	–	–	–	–
Forward currency contracts Other	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–		
Other financial derivatives	–	–	–	–	–	–		
Total financial derivatives	–	3,359.6	2,347.8	5,707.4	487.5	239.4		

* Interest rate payable and receivable has been determined using 31 March 2019 6 month Libor and 3 month Libor

** Floating to fixed rate include £250m forward starting swaps which will commence in September 2019.

Supply of trade

Introduction

RAG 3.11 requires the Company to disclose transactions with both associated companies and the non-appointed business in accordance with the guidance provided in RAG 5.07. Although the appointed business applies IFRS, an associated company for the purposes of supply of trade is any company within the Group[1] or a related company as defined by Financial Reporting Standard 102 as required by RAG 5.07. The following disclosures comply with RAG 3.11.

During the year there were no single contracts in excess of 0.5% (£10.1 million) of the Company's appointed turnover with any subsidiary of the Kemble Group of companies or related companies.

The Company has also chosen to voluntarily disclose all transactions with companies for which there is a common Director. The Directors of the Company and their connection to other Group companies is shown on the Directors' interest table on page 290.

Services provided by the Company and recharged to associated companies

Associate company	Company principal activity	Service provided	Turnover of associate during 2017/18 (£'000)	Terms of supply	Value (£'000)
Thames Water Limited	Holding company	Director costs, treasury, insurance, tax and financial control support services	–	No market – costs allocated by time	1,491.6
Thames Water Limited	Holding company	Non-Executive Directors costs	–	No market – costs allocated by time	24.9
Thames Water Property Services Limited	Property company	Director costs, treasury, insurance, tax and financial control support services	207.4	No market – costs allocated by time	34.8
Kennet Properties Limited	Property company	Director costs, treasury, insurance, tax and financial control support services	21,606.0	No market – costs allocated by time	6.1
Kennet Properties Limited	Property company	Payroll costs	21,606.0	No market – costs allocated by time	24.0
Thames Water Commercial Services Limited	Commercial company	Support services	8.5	No market – costs allocated by time	251.3
					1,832.7

Services provided to the Company by associated companies

Associate company	Company principal activity	Service provided	Turnover of associate during 2017/18 (£'000)	Terms of supply	Value (£'000)
Thames Water Property Services Limited	Property company	Payroll costs	207.4	No market – actual costs recharged	215.8
Thames Water Property Services Limited	Property company	Facilities services	207.4	Negotiated price	38.0
Thames Water Utilities Holdings Limited	Holding company	Group tax relief	–	No market – actual cost	8,100
DUNELM ENERGY LIMITED	Management consultancy company	Administrative services	Not available – small company exemption	Negotiated	13.5
					8,367.3

1 The Group means the group of companies headed by Kemble Water Holdings Limited, the ultimate parent company.
2 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 page 113).

Note for the purposes of RAG5.07, pass-through costs from third parties have been excluded from the disclosures above.

Strategic report
Governance
Financial statements
Annual performance report

Supply of trade continued

Payments to companies with common Directors

Payments to companies in which Directors have interests

Company	Common Director	Service Provided	Terms of supply 2018/19	Value (£'000)
KPMG LLP	Alistair George Buchanan	Assurance & Consultancy	Negotiated	2,745.5
WATER UK	Steve Robertson	Memberships & Subscriptions	Mandatory Fee	490.4
CRANFIELD UNIVERSITY	Dame Deirdre Hutton	Tuition Fees, Training and Conferences	Mandatory Fee	159.9
SOUTHERN GAS NETWORKS PLC	Guy Lambert & Kenton Bradbury	Gas Main Works	Negotiated	663.9
ENERGY NETWORKS ASSOCIATED LIMITED	John Victor Morea	Memberships & Subscriptions	Mandatory Fee	4.7
OMERS INFRASTRUCTURE EUROPE LIMITED	Kenton Bradbury	Directors Fees	Negotiated	110.0
				4,174.4

Directorships held in Group companies

The Company discloses the following information as part of its compliance with RAG 5.07, listing those Directors of the Company who are also directors of the following Group companies during the year ended 31 March 2019 and up to the date of signing this report:

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
Executive Directors								
Nick Fincham	R – 31/03/2019							
Stephen Robertson	R – 24/05/2019							
Brandon Rennet	✓						✓	✓
Non-Executive Directors								
Kenton Bradbury	✓	✓	✓	✓	✓	✓		
John Morea	A – 28/01/2019							
Christopher Deacon	✓							
Guy Lambert	R – 28/01/2019	✓	✓	✓	✓	✓		
Gregory Pestrak	✓	✓	✓	✓	✓	✓		
Independent Non-Executive Directors								
Alistair Buchanan	A – 09/07/2018							
Catherine Lynn	A – 28/11/2018							
Dame Deirdre Hutton	R – 31/01/2019							
David Waboso	A – 01/02/2019							
Edward Richards	R – 28/03/2019							
Ian Marchant	✓							
Ian Pearson	✓							
Jill Shedden	A – 01/10/2018							
Lorraine Baldry	R – 28/03/2019							
Nicholas Land	✓							

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 and loans

All borrowings from the Company's wholly owned subsidiaries are disclosed in note 36 of the AR&FS on page 227.

All loans to the Company's wholly owned subsidiaries are disclosed in note 34 of the AR&FS on page 225.

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 (2018: £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 plc as listed on page 166 for the year ended 31 March 2019.

Omissions of rights

There were no omissions of rights during the year (2018: none).

Waiver of any consideration, remuneration or other payment by the appointee

There were no waivers of any consideration, remuneration or other payments by the appointee during the year (2018: none).

Dividends paid to associated undertakings

The Company's dividend policy, is disclosed in the Directors' Report on page 144.

During the year, the Company paid interim dividends of £60.0 million (2018: £55.0 million) to its immediate parent company, Thames Water Utilities Holdings Limited. Of these dividend payments, none were made to external shareholders of the Group (2018: none). The chart on page 27 of the AR&FS shows how the dividends were utilised within the Group.

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 shown on page 113 of the AR&FS sets out the ownership of Thames Water Utilities Limited and its subsidiaries.

Directors' Sufficiency of Resources Certificate under Condition P of the Company's Instrument of Appointment

This is to certify that at their meeting on 27 June 2019, the Directors of Thames Water Utilities Limited ("the Appointee") resolved that, in their opinion, they are meeting the corporate governance principles issued by Ofwat and that for at least the next 12 months:

- The Appointee will have available to it adequate:
  - financial resources and facilities;
  - management resources; and
  - systems of planning and internal control

enabling it to carry out the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Licence of Appointment) without being dependent upon the discharge of another person of any obligation under, or arising from, any agreement or arrangement under which that other person has agreed to provide any services to the Appointee in its capacity as a relevant undertaker.

- 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.
- Any issues or circumstances that may materially affect the Appointee's ability to carry out its Regulated Duties are noted below and/or within the Risk and Compliance Statement.

In providing this opinion, the Directors have considered many factors as part of their enquiries prior to signing this certificate, including but not limited to:

Corporate governance principles	• the independence of the Appointee's Board from management; • the Appointee's commitment to integrity and ethical values; • the implementation of recommendations following the governance review of the Appointee's Board and the committees that report into them; and • the Appointee's dividend policy and that it does not impair the Appointee's ability to finance the Appointed Business and that it rewards efficiency and management of economic risk.
Financial resources and facilities	• the Appointee's Final Determination for the 2015-2020 regulatory period; • the Appointee's available cash resources and borrowing facilities, which include significant, undrawn bank facilities and take into account: • the Appointee's additional investment to deliver commitments following the trunks mains bursts in 2016 and leakage undertaking in 2018; • the Appointee's projected net cash flow for the remainder of this regulatory period; • the Appointee's investment grade ratings, as shown on page 26 of this report. • the Appointee's compliance with its financial covenants as disclosed on page 26 of this report; • the Appointee's compliance with its dividend principles; and • the preparation of the Appointee's statutory accounts on a going concern basis and long-term viability as disclosed on pages 146 and 45–49 of this report.
Management resources	• the tone from the top established by the Appointee's Executive Committee articulated through the Appointee's code of conduct and values; • the Appointee's People Strategy and People Plans which ensure that the Appointee has access to personnel which will enable it to deliver its regulatory obligations. In particular: • the Appointee's leadership and organisational structure, operating model and human resources (succession) planning strategy; • the Appointee's plans to ensure sufficient management control following redesign of the Infrastructure Alliance contract; • the Appointee's training and development programme for all employees enabling its people to gain skills appropriate to their roles; and • the Appointee's recruitment, reward and recognition strategy to attract high calibre candidates and retain employees with appropriate skills and experience.
Systems of planning and internal control	• the Appointee's formal risk management process, which reviews, monitors and reports on the principal risks and uncertainties and mitigating controls as disclosed on pages 34–44 of this report; • the Appointee's performance in respect of its performance commitments as disclosed in table 3A on pages 276–278 of this report and made reference to in the Risk and Compliance Statement on pages 294–300; • the Appointee's generation and use of relevant, quality information in support of the functioning of internal control; and • the Appointee's risk and assurance strategy using a mix of management control, oversight functions and independent assurance.

Contracting	• the Appointee's procurement arrangements, whereby all trading arrangements, including those with associates, must be appropriate for the Appointee to meet its regulatory requirements, including the restructuring of our Infrastructure Alliance and Technology and Transformation Alliance Contracts; • transactions between the Appointed Business and any Associated Company being at arm's length; • the Appointee neither gives nor receives any cross-subsidy from any other business or activity; and • the Appointee has no agreements or other legal instruments incorporating a Cross-Default Obligation.
Special administration order	• the Appointee's ability to meet its legal obligations; and • the Appointee's financial resources and facilities.
Material issues or circumstances	• commitments made under Section 19 of the Water Industry Act to undertake activities to improve the Appointee's management and delivery of leakage reduction targets, including: • monthly performance report updates on our website with the ability for customers to leave feedback; and • monthly updates to the CCG and direct engagement with customers. • Brexit exposes the Appointee to risks over the availability and transportation of critical chemicals and parts.

In addition to taking all of the above into account, the Directors:

- procured a report from PwC, as part of their Water Industry Act section 19 Undertaking, to help inform them on their ability to sign the 2018/19 Director's Sufficiency of Resources Certificate through a "Review and Recommend" report on the 2017/18 F6A Directors' Certificate;
- procured a report from PwC, as the Appointee's auditor, stating whether they were aware of any inconsistencies between this Sufficiency of Resources Certificate and the financial statements or any information obtained in the course of their work; and
- undertook quarterly reviews and enquiries during 2018/19 of compliance with the 2017/18 F6A Directors' Certificate.

Therefore, the Directors have resolved that, in their opinion, the Appointee will have available to it, for at least the next 12 months, sufficient resources to enable it to carry out and meet its regulatory obligations, as set out in the Company's Instrument of Appointment. The Directors will continue to formally monitor the factors quarterly during the coming 12 months.

This certificate was approved unanimously at the board meeting on 27 June 2019.

Ian Marchant
Interim Executive Chair

Brandon Rennet
Chief Financial Officer

Nick Land
Independent Non-Executive Deputy Chair

Alistair Buchanan
Independent Non-Executive

Catherine Lynn
Independent Non-Executive

Ian Pearson
Independent Non-Executive

Jill Shedden
Independent Non-Executive

David Waboso
Independent Non-Executive

Kenton Bradbury
Non-Executive

Chris Deacon
Non-Executive

John Morea
Non-Executive

Greg Pestrak
Non-Executive

Risk and Compliance Statement 2018/19

The supply of sufficient and clean drinking water and removal of wastewater are essential services we provide to our customers. In doing so, and whilst protecting and enhancing the environment, we are required to comply with a range of statutory, licence and regulatory obligations. We recognise the importance of open and honest reporting on our level of compliance with these obligations in order to build trust and confidence with our customers and stakeholders.

This statement sets out the processes we have in place to demonstrate to our customers, to Ofwat and to our other stakeholders, our compliance with relevant statutory, licence and regulatory obligations, where Ofwat is the relevant enforcement authority. The obligations pertinent to our functions as a statutory Water and Sewerage Undertaker are primarily set down in the Water Industry Act 1991 and our Instrument of Appointment – our "Licence". The Licence also requires us to perform duties imposed under any other statutory and regulatory guidelines as necessary to fully discharge our obligations.

Our approach to achieving compliance with our statutory, licence and regulatory obligations is based on establishing sound governance, risk management and systems of internal controls.

This statement covers the reporting year 1 April 2018 to 31 March 2019, and is set out in four sections:

Section 1: Our Board Assurance Statement which confirms the extent of our compliance with our obligations, which has been signed by all members of our Board.

Section 2: The steps we have taken to understand and meet our customers' expectations.

Section 3: The processes and assurances we have in place to achieve compliance with our obligations.

Section 4: Sets out compliance exceptions.

1. Board Assurance Statement

The Board of Thames Water Utilities is satisfied that we have:

- A full understanding of, and have complied, in all material respects, with our statutory, licence and regulatory obligations except where detailed in Appendix 1;
- Taken appropriate steps to understand and meet the expectations of our customers;
- Appropriate systems and processes in place to identify, manage and review our material risks; and
- Sufficient processes and systems of internal control to deliver our services to customers and meet our obligations.

We also confirm that we have:

- Provided Ofwat with assurance that we have sufficient financial and management resources to enable us to carry out our regulated activities for at least the next 12 months (Directors' Sufficiency of Resources Certificate – Licence Condition P of our Instrument of Appointment);
- Sufficient financial resources and facilities to enable a special administrator to run our Company if such an order were to be made (Directors' Sufficiency of Resources Certificate);
- Made sure that all trade with associated companies in the year has been at arm's length, as set out in RAG 5 (Supply of Trade disclosure);
- Maintained the investment grade credit rating Baa2 (as detailed in page 26);
- A dividend policy in place, details of which can be found on page 27;
- Considered the financial impact of a range of severe, but plausible risk scenarios materialising to enable us to provide reasonable assurance that we will be able to continue in operation and meet our liabilities as they fall due over the next ten years, to 2029, as set out in our Long-Term Viability Statement which can be found on pages 45–49;
- Explained how we link Directors' pay to standards of performance as set out in section 35A of the Water Industry Act 1991. Further details can be found on pages 126–142;
- Made our auditors aware of all relevant information (as required under the Companies Act 2006); and
- Reported in Appendix 1 where we have not achieved the level of performance agreed in our final determination.

During the course of their work, our independent assurer, PwC did not identify any inconsistencies between the information contained within this Risk and Compliance Statement and the financial statements or any other information obtained in the course of their work. A copy of their Assurance Statements are provided on pages 301–302.

Signed by and on behalf of the Board:

Ian Marchant
Interim Executive Chair

Brandon Rennet
Chief Financial Officer

Nick Land
Independent Non-Executive Deputy Chair

Alistair Buchanan
Independent Non-Executive

Catherine Lynn
Independent Non-Executive

Ian Pearson
Independent Non-Executive

Jill Shedden
Independent Non-Executive

David Waboso
Independent Non-Executive

Kenton Bradbury
Non-Executive

Chris Deacon
Non-Executive

John Morea
Non-Executive

Greg Pestrak
Non-Executive

Risk and Compliance Statement 2018/19 continued

2. Understanding and meeting our customers' expectations

Our aim is to make access to our services and information as easy as possible for our customers. We provide a wide range of contact options 24/7, 365 days a year for our customers to suit their needs. These include:

- our telephone services and social media; and
- our website, which provides access to services and information such as:
  - supply interruptions and our leakage performance;
  - our Customer Codes of Practice, Customer Guarantee Scheme, Charges Scheme and our Quality Promise Complaints policy;
  - how to pay a bill or make an enquiry; and
  - online account management, which provides customers with secure access to manage their accounts and pay their bills online at their convenience.

We recognise the importance of understanding whether we are meeting our customers' expectations and we do this by having an ongoing and comprehensive, two-way dialogue to find out their wants and needs, including their priorities for service improvement. We use a variety of different approaches to do this, including:

- traditional customer research, a tool to listen and gain feedback on contact experiences;
- local engagement forums on subjects that matter most to our communities; and
- marketing campaigns that aim to seek support and help from customers on common issues such as water efficiency and sewer use.

We also provide a summary of our customer insight to our employees in the form of our "What Customers Want" document, which is updated on a regular basis. This is also shared with our Customer Challenge Group, and forms the basis of, and was instrumental to, the design of our PR19 Business Plan.

Despite having such a good understanding of what our customers want, we still don't always get it right. 2018/19 was a challenging year. Our complaints increased both first and second stage and the overall SIM score has not seen as strong an improvement as we would have liked. This resulted in several Performance Commitments not being met. Our deterioration in performance was significantly impacted by the aftermath of the "freeze/thaw", and the long, hot, dry summer affecting water supply for some of our customers. The need to redirect our resource during this major incident naturally had a consequential impact on other parts the business and resulted in increased response times and backlogs in less critical areas.

As a result, we have already taken steps to provide our teams with greater visibility of our overall customer service and performance and will be reinforcing our controls, particularly in areas where there are underlying issues in our performance.

Our customers have told us that we needed to make improvements to how we engage and support them, including those in vulnerable circumstances, particularly during major operational events. Enhancing and growing the help we provide to customers in vulnerable circumstances is a key strategy in our business plan.

We have made progress with our planned improvements, focusing our efforts on making changes to the way we provide our services and engage with customers during operational events and recovering from the impact of the incidents on other activities.

We have reinforced our Incident Management team, which leads on incident avoidance planning and customer engagement, as well as taking the lead when any incident occurs. We have made significant improvements to social media, web and SMS communications and a team of trained Ambassadors who support customers on the ground during incidents has been established. A complete review of our customer compensation policy, which was subject to much criticism following the "freeze/thaw" event, is nearing completion. And we have put in place contact centre resource plans which provide greater resilience and contingency.

The number of customers now registered for priority services has grown and these customers now have a priority phone number to call if they need assistance. A team of dedicated Customer Representatives help them to get the additional support they need during and after an incident. Partnerships with energy companies and the third sector, such as Age UK and Kidney Care, are helping us to connect with harder to reach customers.

We have worked collaboratively with the third sector and other water companies to simplify our social tariff. This, alongside our engagement with tenants of Local Authority and Housing Associations who we are now billing directly, has seen the number of customers now benefiting from this tariff grow to over 69,000.

Implementation of our replacement billing and customer relationship management system is now nearing completion and over 200,000 customer accounts have been migrated through the first pilot phase. Further migrations will follow during 2019/20. The new system is a key enabler to the transformation of our Billing Contact Centre to respond more effectively to our customers.

We have started work on developing a new website. We expect it to go live later this year. It will be easier for our customers to navigate and use and will provide AA Accessibility standard – a key requirement for customers in vulnerable circumstances.

Our water and waste teams have continued to focus on continuous improvement to drive operational performance and reduce complaints. Our complaints action plan is described in our response to Ofwat following their initial review of our draft business plans for 2020-2015. "Smarter Home" visits, offered to customers having a smart meter fitted, have continued to be popular and are supporting a reduction in water consumption for these customers as well as proving to be a good way to spot customers in vulnerable circumstances who need our help.

Further information on improvements can be found in the Customer Engagement section of our Annual Report on pages 75–77. Our focus for 2019/20 will be on making a significant reduction in customer complaints, taking into account the new definition of complaints being introduced by the Consumer Council for Water. This will involve us managing the risks of customer impact associated with our drive on leakage, the progressive metering programme, which sees customers being transitioned to meter charges, and the migration of customers to our new billing and customer relationship management system. We will also take the time to learn from the shadow year of the new C-MeX measure and to use this to develop strategies for improvement in AMP7.

3. Processes and the assurances we have in place to meet our obligations

3.1 Managing our risks

The Board is responsible for maintaining a sound system of risk management. This includes the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives, and for ensuring that an appropriate risk culture has been embedded throughout the organisation.

We align our risk management approach to industry best practice (ISO 31000) and seek regular engagement with stakeholders, external support partners and peer companies to challenge our process against best practice. Our risk management process allows Directors to demonstrate compliance with their duties as required under the UK Companies Act 2006 and supports compliance with the UK Corporate Governance Code.

To support the above requirements, we monitor and challenge our risk management through processes including:

- Monthly performance reporting of risks and mitigations, including against regulatory measures;
- Quarterly oversight of risk and the risk management process by the Executive Committee, and Audit, Risk and Reporting Committee (ARRC);
- An annual internal audit plan that provides independent assurance over the operation of key controls and takes input from the Company's risk profile as well as stakeholder priorities; and
- An annual Risk report to the ARRC and Board which summarises the activities undertaken in the year by the Risk, Audit and Assurance team. This report also supports the ARRC and the Board in making their annual statement on the effectiveness of our system of internal controls.

The Company reports to its stakeholders primarily through the Annual Report and Financial Statements (pages 150–246) where we publish our approach to risk management, principal risks and uncertainties, and our Long-Term Viability Statement to set out the material risks the Company is currently facing, together with mitigation steps it is taking.

3.2. Our internal control environment

The Board is ultimately responsible for ensuring we have in place, appropriate systems of internal control, which it formally reviews annually. It is assisted in discharging this duty by the Company's ARRC, which receives reports on the design and effectiveness of internal controls and risk mitigation strategies, which are highlighted primarily through our risk management arrangements, compliance and internal audit activities, as well as through external assurance. We are enhancing our control environment to follow best practice as set out by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control – Integrated Framework (2013).

The water and wastewater services we provide are governed by a range of legislation and regulations as well as the requirements of our Licence. We employ relevant expertise to ensure that we understand these requirements and can translate them into policies and procedures for colleagues to apply. This expertise includes, but is not limited to, legal, financial, health and safety, asset and process engineers and environmental professionals. We also draw upon additional external expertise where necessary, to ensure that any new, or changes to our existing, obligations are appropriately interpreted and applied. Compliance with approved policies and procedures is monitored on a regular basis.

We continue to develop our approach to internal controls and related assurance and are working to further embed a risk-based "three lines of defence" assurance model throughout our business, which distinguishes between first line processes and controls, second line oversight and third line independent assurance. The diagram below demonstrates how this is structured in our business.

Corporate Governance Framework

Risk Governance Framework

1st Line of Defence
Business functions that OWN and MANAGE risks and controls

- Customer experience
- Finance and commercial
- Human resources strategy planning & investment
- Delivery office/alliance partners
- Digital
- Operations (water & wastewater)
- Strategy & regulation
- External affairs

2nd Line of Defence
Functions that OVERSEE risk and control

- Finance & commercial compliance teams
- Regulatory reporting compliance teams
- Environment compliance teams
- Water quality compliance teams
- Health & safety compliance team
- External reporting compliance team
- Wholesale market services assurance team

3rd Line of Defence
Functions that provide INDEPENDENT Assurance

- Internal audit
- External audit
- Other third party assurance providers

3. Processes and the assurances we have in place to meet our obligations continued

3.3 Providing assurance over our risks

We are continuously evolving our internal control environment and we are currently mapping our assurance activity to identify gaps and to ensure effective coverage of our obligations is maintained.

Our Director of Strategy and Regulation is accountable for the assurance/compliance framework relating to our Licence and relevant statutory and regulatory obligations. Support and oversight are provided by the various second line assurance and compliance teams across the business. Responsibility for compliance with specific Licence conditions and obligations is assigned to individual senior leaders within our business, relevant to their areas of responsibility. This includes the development, implementation and testing of controls to ensure compliance with policy, standards and procedures.

As the development of regulation continues, so does the evolution of our compliance framework. Over recent years our Licence conditions have been updated and simplified where necessary, to reflect industry changes. This year we have drafted and communicated to the business, guidance in readiness for the introduction of a new Licence condition relating to the Prohibition of Undue Discrimination and Undue Preference, and Restrictions on the Use of Information in Relation to the Provision of Certain Services (Licence Condition E1), and designed processes to manage our compliance with the Data Protection Act 2018 and Network Information Systems Directive (NIS), both of which came into force in May 2018.

We also operate an annual process of "self-certification" to inform this Risk and Compliance Statement. All senior leaders are required to provide assurance over their team's awareness and compliance with relevant legislation, regulation and governance by completing an annual Control Self-Assessment (CSA). Where leaders identify weaknesses, they are required to set out the actions they are taking to improve awareness and achieve compliance within a reasonable timescale. The completion of these actions is monitored by business leadership teams and the ARRC.

Our Internal Audit team completes an annual cycle of formal independent reviews agreed by the ARRC which covers the material business risks and key processes of the Company. These reviews address aspects of the overall framework for compliance with our statutory, Licence and regulatory obligations. The audit findings and recommended actions arising from these formal reviews are shared with management, our ARRC and our Board.

To achieve confidence over the accuracy of the information we publish, including our regulatory submissions, we apply our "three lines of defence" assurance model discussed above. This best practice approach means that we, and our customers have a level of assurance that these submissions have been appropriately prepared and are consistent with our established internal processes. These processes are outlined below, and the outcome of the assurance is set out in our Data Assurance Summary 2018/19.

Firstly, our operational teams have well documented processes to ensure that they produce accurate and complete data. This is based on a robust suite of controls including:

- Clearly defined accountabilities and responsibilities;
- Documented methodologies for preparation of each of the individual performance commitments and related Ofwat data tables;
- Routine internal and external assurance of methodologies, processes, data, controls and conclusions; and
- Senior accountable managers sign off of all data prior to submission.

Secondly, our compliance and assurance teams are responsible for developing our assurance framework, including provision of oversight of, and challenge to, the output from operational teams.

Finally, our Internal Audit team and external assurance providers, which include KPMG and PwC, provide independent assurance. Financial and non-financial data for 2018/19, including our performance commitments and associated customer ODIs, were assured by PwC.

Our assurance processes are detailed further within our annual Assurance Plan, you can find a copy here:

https://www.thameswater.co.uk/sitecore/content/Corporate/Corporate/about-us/our-investors/annual-results

3.4 Our data assurance summary

As part of the Company Monitoring Framework, Ofwat assesses companies on an annual basis and places them in one of the following categories of assurance:

- Self-Assured – The company has demonstrated consistently that customers and other stakeholders can place trust and confidence in the information that it provides;
- Targeted – The company did not consistently meet the high standards that customers and other stakeholders expect; and
- Prescribed – The company did not instil enough confidence about their ability to deliver, monitor and report performance.

In November 2017, we were placed in "prescribed" status following our reporting of our leakage performance and some arithmetical errors. Following Ofwat's assessment of our 2017/18 reporting in January 2019, noting significant improvements to the previous year, including responding to Ofwat feedback, we were promoted to the "targeted" category. We exceeded expectations in two areas (financial flows and charges engagement) and met expectations in all except two of the other assessment areas. We are committed to the continuous improvement of our external publications to ensure customers and other stakeholders have trust and confidence in the information we publish.

The requirements for "targeted" companies are that companies must put in place assurance processes that give stakeholders the confidence that the information they publish is accurate and reliable. In addition, however, "targeted" companies are required to:

- Carry out an exercise with stakeholders to identify areas of risks requiring additional assurance; and
- Publish a statement of risks, strengths and weaknesses on this in the autumn of each year in advance of submitting information.

Consistent with the Company Monitoring Framework (CMF) we have considered the risk to customer "trust and confidence" in the context of provision of accurate data and our ability to demonstrate we are listening to their needs and delivering the services they want and can afford.

We sought the views of our customers and stakeholders on our Draft Assurance Plan, published in November 2018, and used this to shape our Final Assurance Plan, which was published in March 2019. Our aim has been to address the issues highlighted by Ofwat in their CMF assessment and improve the trust and confidence of all our stakeholders.

We have consulted on, and published our Risks, Strengths and Weaknesses Statement (www.thameswater.com/reports) to show how we are ensuring that we produce robust regulatory reporting that customers and stakeholders can have trust and confidence in, under our assurance and governance framework.

The Statement assesses all of our external regulatory reporting to Ofwat and highlights areas of reporting risk that have an impact on our customers and stakeholders. The aim of the Statement is:

- To build upon our knowledge and findings detailed in the 2017/18 Statement and from our 2017/18 reporting;
- To evaluate the regulatory reporting risks applicable in 2018/19;
- To focus on ways we can improve how we report on our performance to our customers and stakeholders; and
- To develop a set of Assurance Plans for 2018/19.

Our Final Assurance Plan for 2018/19 sets out the activities planned to mitigate the risks identified in the Risks, Strengths and Weaknesses Statement. Full details of the assurance carried out and the outcome of the assurance can be found in our Annual Data Assurance Summary published with this combined Annual Report and Annual Performance Report.

Overall accountability for the preparation and production of the Annual Performance Report (which includes reporting of performance against performance commitments and associated ODIs) rests with our Chief Finance Officer. The outcome of the assurance undertaken is reviewed by the ARRC.

We have an established assurance and performance reporting framework. In addition, this year we have asked PwC to review our approach and the processes we follow to assess our compliance with our non-financial reporting obligations. A copy of their assurance report can be found on pages 274–275.

4. Compliance exceptions

Disclosure – Environmental Permitting Regulations (EPR)

In December 2018 Thames Water pleaded guilty to contravention of Regulation 12(1)(b) of the Environmental Permitting Regulations 2016, regarding an incident which happened in 2015. We were found to have failed to put in place systems or enforce such systems so as to avoid the offence. The impact of the incident was found to be minor and localised and resulted in TWUL making payments to three local environmental charities and a fine of £1.8 million.

Action being taken to improve

Our Environmental Regulation team have designed and implemented a new governance, oversight, support and performance model. Accountability for performance rests with our operations teams and together ensure that incidents are identified, responded to, mitigated and implement lessons learnt to continually improve performance.

Disclosure – Environmental incidents

In 2018 we had nine serious pollution incidents. These were all Category 2 pollution incidents which was the first time in 5 years that we have not had any Category 1 pollution incidents. Our pollutions performance for the 2018 calendar year was broadly in line with 2017. We recorded an increase of three incidents compared to 2017 but remain below target. There was a reduction in pipe related incidents, however there was an increase from sewage pumping stations and sewage treatment works.

Action being taken to improve

We aim to reduce the impact of our operations on the environment to the lowest practicable level and reducing pollution incidents is a key focus for us. In recent years we have improved performance in this area to better than sector average through investment in technology and asset infrastructure, as well as improvements to our internal management processes. We have started monthly pollution compliance reviews to improve our root cause investigation and identify and extract learning and we continue to work toward 4* EPA performance.

Further in-depth analysis of root cause data, increased use of technology and the implementation of other new pollution reduction initiatives will aim to improve performance in the coming year. We are committed to improving performance further with a reduction in pollution incidents of 30% by 2025.

Disclosure -– Failure to meet our leakage targets (WIA s37 /s19 undertaking)

We failed to achieve our leakage target in 2018/19 on the back of a number of operational events and incidents in the year and also a challenging year in 2017/18 which meant our opening reported leakage value was higher than our target.

Ofwat launched a formal investigation and we agreed to a formal undertaking in August 2018, under section 19 of the Water Industry Act 1991, committing us to reduce leakage and put in place a number of other measures.

Action being taken to improve

We have established a Leakage Task Force to drive performance improvements and delivery of leakage reduction targets. We are also publishing our monthly leakage performance on our website, enabling our customers to leave feedback. We also provide monthly updates to the CCG and directly engage with customers.

We have adopted a "three lines of defence" approach to assurance on our Section 19 undertakings overseen by our Undertakings Compliance Officer. We have also submitted two monitoring reports (Nov 2018, May 2019) to Ofwat.

We have appointed KPMG as our independent assurance provider over compliance with the S19 undertaking and Victoria Borwick as our Independent Certifier of our monthly reporting.

Disclosure – DWI enforcement notices

During March 2018 the Company was sent 14 Enforcement Notices under regulation 28(4) of the Water Supply (Water Quality) Regulations 2016. This included 132 actions.

Action being taken to improve

We are actively working in collaboration with the DWI to respond in detail to all our requirements within the notices. We have also launched a "Water Supply Transformation Programme (WSP)" to focus on all Water Quality processes across our business to ensure actions are addressed in a sustainable manner.

Disclosure – New Roads and Streetworks Act 1991 (NRSWA)

During the period, TWUL breached, and has been prosecuted for non-compliances in relation to administration, reinstatement, safety and permit requirements whilst undertaking streetworks activities. The volume of prosecutions increased compared to the previous year due to a couple of key factors, the first being a significant increase in volume of repair related work (to support reductions in leakage) and also due to the increase in the level of scrutiny applied by Highways Authorities to utility works across London.

Risk and Compliance Statement 2018/19 continued

4. Compliance exceptions continued

Action being taken to improve

We are working with our stakeholders to address their concerns and to minimise our impact. We have also reviewed our processes and enhanced the scale and scope of independent streetworks audits that are carried out such that risks, issues and shortfalls are better understood and remediated. All new "civils contracts" that contain an element of streetworks activity now contain requirements for delivery and independent audit to discern and improve performance.

Disclosure – New Roads and Streetworks Act 1991 (NRSWA)

During the period, TWUL breached, and has been prosecuted for, non-compliances in relation to administration, reinstatement, safety and permit requirements whilst undertaking streetworks activities.

Action being taken to improve

We have reviewed our processes and enhanced the scale and scope of independent streetworks audits that are carried out such that risks, issues and shortfalls are better understood and remediated.

All new "civils contracts" that contain an element of streetworks activity now contain requirements for delivery and independent audit to discern and improve performance.

Disclosure – Performance Commitments

For 2018/2019, with the exception of those detailed below, we have met or exceeded our Performance Commitments. Full details on our performance can be found on pages 62–73. The 14 performance commitments with a red status this year are stated below:

Minimise the number of written complaints (RA1)
Improve handling of written complaints (RA2)
Improve customer satisfaction of retail customers within our Operations Contact Centre (RA4)
Service incentive mechanism (RA6)
Improve handling of written complaints (SA1)
Improve handling of written complaints (WA1)
Minimise the number of written complaints (WA2)
Customer satisfaction surveys (internal CSAT monitor) – water (WA3)
Supply interruptions > 4 hours (WB5)
Security of supply (WB6)
Leakage (WC2)
Net energy imported (WD1)
STW discharge compliance (SC3)
Net energy imported (SD1)

Our annual Control Self-Assessment process, by which all senior leaders across the business confirm their awareness and compliance with our obligations, has not identified any other incidences of non-compliance for reporting here.

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

Report on the Annual Performance Report

Opinion on Annual Performance Report

In our opinion, Thames Water Utilities Limited's Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.08, RAG2.07, RAG3.11, RAG4.08 and RAG5.07) and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2) set out on page 257.

What we have audited

The 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), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis – wholesale water and wastewater (table 2B), the operating cost analysis – retail (table 2C), the historic cost analysis of tangible fixed assets-wholesale water, wholesale waste and retail (table 2D), the analysis of capital contributions and land sales -wholesale (table 2E), the household revenue by customer type (table 2F), the non-household water revenue by tarrif type (table 2G), the non-household wastewater revenue by tarrif type (table 2H), the revenue analysis and wholesale control reconciliation (table 2I), the infrastructure network reinforcement cost (table 2J), the new connections – infrastructure charges reconciliation (table 2K) and the related notes.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Annual Performance Report 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 & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, 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, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting 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 purpose. 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 ("IFRSs"). Financial information other than that prepared on the basis of IFRSs 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 245–300 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. 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.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements within the Annual Performance Report does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements within the Annual Performance Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements within the Annual Performance Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the Annual Performance Report and the audit

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 247, 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 3.11, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Thames Water Utilities Limited continued

Auditors' responsibilities for the Audit of the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Annual Performance Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' 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.

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out on page 257, and its accounting methodology statement published on the Company's website on 27 June 2019. 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).

Use of this report

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 WRSA, for our audit work, for this report or for the opinions we have formed.

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 2019 on which we reported on 27 June 2019, 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.

Other required reporting

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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 June 2019

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 privatised – i.e. the period from 1990 to 1995. The current period (2015–2020) is known as AMP6, and the period for which we are now starting to plan (2020–2025) will be AMP7.

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

Bazalgette Tunnel Limited ("BTL") – is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel.

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the "pay when paid" principle.

We have recognised revenue, cost and profit on the arrangement with BTL and disclosed our underlying performance separately, in line with our financial covenants.

Capital expenditure – Expenditure to acquire or upgrade physical assets such as property, pipes and treatment works and intangible assets such as billing and data management systems.

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 AMP6. 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 2015-2020 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 2015-2020, 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.

External shareholders – this is the term used to describe the ultimate owners of the company. Most of our external shareholders are pension funds. They own the shares in our ultimate parent company, Kemble Water Holdings Limited. Dividends paid to External shareholders are paid by Kemble Water Holdings Limited and not by Thames Water Utilities Limited. During the year, Kemble Water Holdings Limited did not pay any dividends.

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.

Kemble Water Holdings Limited – this is the ultimate parent company of Thames Water Utilities Limited. The shares of Kemble Water Holdings Limited are owned by External shareholders.

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.

Ml/d (mega litres per day) – this is the unit used to measure our leakage. For more information on our leakage performance, please see pages 18 to 21.

Glossary of regulatory terms continued

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") – ODI 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.

Thames Water Utilities Holdings Limited – this is the immediate parent company of Thames Water Utilities Limited. Thames Water Utilities Holdings Limited is the recipient of any dividends paid by Thames Water Utilities Limited.

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.

Underlying – Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement which has been discussed in the glossary under the term "BTL".

In accordance with our financial covenants, we are required to disclose our underlying performance separately.

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

The water and sewerage industry in England and Wales comprises over 50 million household and non-household consumers. 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' interests 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 the drinking water that we supply and ensures its safety and compliance with Water Quality Regulations. They do this by 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.

luminous
Consultancy, design and production
www.luminous.co.uk

Thames Water Utilities Limited
Annual Report and Annual Performance Report 2018/19

Registered Office:
Clearwater Court
Vastern Road
Reading RG1 8DB