



Corporate Responsibility and Sustainability

2011 - 2012



On a journey to becoming
more sustainable



Climate change

Addressing the causes and adapting to the inevitable consequences of climate change is a fundamental aspect of our Sustainable Strategy.

Historical greenhouse gas emissions mean that some climate change impacts are unavoidable; these will emerge as variations in weather patterns and increased frequency of droughts and other extreme weather events. We have therefore had to look carefully at where and when we source water, the capacity of our sewers and protecting our sites against flooding.

We know we must act now to find solutions that balance competing environmental, social and economic demands in a sustainable way. It is a central theme to both our five-year Business Plan and 25 year strategy which outline how we aim to reduce our contribution to greenhouse gas emissions and adapt to its effects.

We continue to maintain our accreditation of Carbon Trust Standard, which recognises "real and sustained emissions reductions". This standard replaced the Carbon Trust's Energy Efficiency Accreditation Scheme (EEAS), which we had previously held for over ten years. We were first awarded the Standard in June 2008.

During the year, we have continued to work closely with a wide range of organisations in developing our response. We have worked with a range of organisations leading the debate, including Defra, the London Climate Change Partnership, Business in the Community and the Prince of Wales's Corporate Leaders Group on Climate Change.

Climate Change / Adapting to climate change

We have to deliver appropriate adaptation measures to protect public water supplies and the environment in the future.

This means working hard to ensure we build and maintain our understanding of the implications and impacts of climate change and make decisions based on sound science.

In 2007 we published 'Taking care of water', a 25-year forward look at issues for our business. In it we identified potential climate change impacts and actions we need to take to ensure we mitigate and adapt effectively and responsibly.

In the shorter term our three areas of focus are:

Water resource planning (to protect the security of future water supplies such as rivers and groundwater)
Sewerage design and capacity
Flood resilience

We are now in the process of adapting some of our sites in our current five-year business plan running up to 2015. We are working with the Environment Agency, Ofwat, the UK Climate Impacts Programme (UKCIP) and key academics to establish how best to apply the UK Climate Projections 09 (UKCP09) to water resource planning.

We assessed flood resilience to determine the potential flood risk at 3842 clean and wastewater sites to identify 'at risk' sites using a 1 in 100 year plus 20% storm event as the threshold. By 2015 we intend to have checked and dealt with flood resilience at 17 sites both clean water and wastewater sites. So far we have completed the process at 5 sites.

Reporting on adaptation

As part of the requirements of the Climate Change Act 2008 we had to produce an Adaptation Reporting Power response for the Government which describes the current and future predicted impacts of climate change for Thames Water. It also illustrates how climate change risk is increasingly embedded within our business processes and describes our current and potential future responses.

Climate change is only one of many risks and must not be considered in isolation, although the production of this report has provided a valuable opportunity for reflection and an on-going look at our approach and understanding.

Climate change/ Mitigating climate change

The Climate Change Act 2008 requires the UK to cut greenhouse gas emissions by at least 80 per cent by 2050. We have stated our aim to work towards the emission reductions incorporated into the Act in a reasonable way.

We are committed to reducing our contribution to climate change and aim to reduce emissions in accordance with government policy, the Carbon Reduction Commitment Energy Efficiency Scheme and the Climate Change Act 2008.

Our voluntary target is to achieve a challenging 20 per cent reduction in emissions (compared to 1990 levels) for our scope 1 and 2 emissions. To achieve this goal we will in addition to the projected decarbonisation of grid electricity:

- Deliver further ongoing energy efficiencies.
- Increase our capacity to generate renewable energy, including new Combined Heat and Power (CHP) capacity, CHP enhancement, PV and wind power.
- Continue to invest in low carbon operational processes and assets.

Climate change / Mitigating climate change / Our carbon emissions

By 2015 we have set ourselves the challenging goal of cutting our greenhouse gas emissions (CO₂e-carbon dioxide equivalent) by 20 per cent compared with 1990 levels for the emissions associated with our operation and electricity and natural gas use.

In our plans, we have assumed that grid electricity intensity – the amount of carbon used in generating it – will decrease in line with projections in the Government's Low Carbon Transition Plan. We are a participant in the Carbon Reduction Commitment Energy Efficiency Scheme and submitted our first annual report in 2011. We ranked 38th in the league table of 2,100 registered participants in the UK.

To date, we have reduced emissions by 16 per cent, even though we serve the equivalent of three million more customers than in 1990 and have to meet today's higher water and sewage treatment standards. This achievement represents an absolute reduction of 136,944 tonnes CO₂e and is equivalent to the annual carbon emissions associated with the power used by 79,000 households.

Of the 1,171 GWh of electricity we used to pump and treat water and sewage last year, 166 GWh – or 14.2 per cent – was renewable electricity we produced ourselves. We generated 176 GWh of renewable electricity in total. We also produced 85 GWh of renewable heat energy which helped reduce our reliance on

natural gas and gas oil. Since 2007-08 we have reduce our consumption of energy by 8 percent from 1,348 GWh to 1,240 GWh.

The emissions associated with delivering a mega litre (Ml) of water and wastewater service decreased in 2011/12 compared to 2010/11.

Climate change / Mitigating climate change / Managing our carbon footprint

Initiatives during 2010/11 to further manage our carbon footprint:

- Completed a biogas scheme in Didcot, feeding the first-ever renewable gas into the UK gas supply network.
- Increased our renewable energy generation capacity by 4MW, including by 1.25MW at Chertsey Sewage Treatment Works - two years earlier than planned.
- Increased metering of gas and electricity use, covering 100 per cent and 95 per cent of use respectively, to more accurately measure energy consumption.
- Reduced energy usage by 6% across three operational sites by using metering data to target specific efficiency opportunities – this approach will now be replicated at another 22 sites.
- Improved pumping at many points on our water network to reduce leakage and cut 5.4 GWh of energy use.

Initiatives for 2011/12 included:

- We generated 176 GWh of renewable energy at our operational sites. We used 166 GWh of this electricity ourselves and exported the remaining 10 GWh to the National Grid. In total, 14.2 per cent of our electricity needs were covered by self-generated renewable electricity.
- Generated and used 937MWh of electricity on sites using photovoltaic solar cells.
- Increased metering of gas and electricity use, covering 100 per cent and 99.6 per cent of use respectively, to measure energy consumption more accurately.
- Began a programme to save eight GWh in energy use by improving the efficiency of air blowers used in the sewage treatment process.
- Prioritised our pump efficiency programme in the light of the drought, focusing on raw water pumps which take water from rivers to supply our storage reservoirs.
- Introduced a programme to engage staff at our Reading HQ in energy and carbon management – for example, by giving weekly updates on how much power each wing of the building uses.
- Installed equipment at Slough Sewage Treatment Works to dry sewage sludge and turn it into highly-combustible flakes as a renewable fuel source.
- Fitted new lighting and motion sensors at six operational sites, which turn off lights when the room is vacant.



Climate change/ Working with others

During the year, we have continued to work closely with a wide range of organisations in developing our responses. We have worked with Defra, UKWIR, the London Climate Change Partnership, Business in the Community, the Prince of Wales's Corporate Leaders Group on Climate Change and leading Academics.

British Gas partnership

In January 2012, Thames Water set-up a partnership with British Gas to promote energy-saving and water-saving products. Reducing the consumption of hot water in the home represents a considerable opportunity for householders to save water, save energy, save carbon and save money.

Nina Bhatia, Managing Director of Electrical and Dyno Services at British Gas, said:

"We know household budgets are stretched at the moment, which is why energy efficiency can make such a vital difference and we are excited about offering a range of energy and water saving products to customers in London and the Thames Valley."

David Bland, Consumer Council for Water, said:

"It is refreshing to see two big utilities working together to benefit their customers and the environment. The link between energy and water is one that we all need to be mindful of, particularly with water in short supply in the South East this year and with energy prices not set to go downwards over the long term."

2°C Challenge Communiqué

In 2011 Thames Water, as a member of the Prince of Wales's Corporate Leaders' Group on Climate Change, signed the 2°C Challenge Communiqué calling on governments around the world to commit to green, climate change-resilient economic growth over the long term. Through our participation in the Communiqué we hope to demonstrate through active leadership that it is possible to make in-roads to carbon reduction challenge required while remaining profitable and effective.

Start

Thames Water is a founding partner of Start, an initiative led by the Prince of Wales to help people across the UK start to lead more sustainable lives and to show what a more energy-efficient, cleaner and healthier future could look like.

Our 'Carbon Nutritionists'

It is essential we work with our employees to raise awareness of what they too could do to reduce both our and their own carbon footprint.

Since its inception, our Energy and Carbon Strategy has recognised that sustainable energy and carbon reduction requires both the application of technology supported by staff engagement and culture change. To this end in April 2011, we installed over 100 real time electricity sensors across our headquarters building in Reading. These sensors allowed by department, real time monitoring and display of electricity usage. This data has been used by our Energy and Carbon team to set a baseline of consumption and department reduction targets across the building.

These targets together with an engaging communication programme titled 'Cutting the Carbs' was launched on 1st November 2011. This launch date was chosen to coincide with the winter clocks 'going back' in order to build on this conscious change and to maximum lighting savings potential during the winter period. As a visual metaphor to highlight the programme and encourage staff ownership we inflated 300 balloons at our Reading HQ. The balloons represented the amount of harmful carbon dioxide released if everyone in the building left their monitor on standby overnight.

Our Cutting the Carbs programme was spearheaded by our own in-house superhero 'Captain Carbon'. Using this image we also recruited champions across the business, called 'carbon nutritionists', whose role is to highlight ways of saving power.

Examples of some of the simple advice given by our 'carbon nutritionists' were to:

- Switch off your monitor when away from your desk for more than 10 minutes, and at the end of the day.
- Open window blinds to maximise daylight rather than turning on lights.
- Switch off lights around the office at the end of the day.
- If you need to print a document then print in batches, to reduce idling time for the printer.
- Unplug mobile phone chargers from your desk when not in use.

As a result of this programme we have seen electricity consumption at our headquarters office in Reading fall by 5% between November 2011 and May 2012 saving over 75,000 kgCO₂e. This progress has been maintained with the help of our nutritionists and weekly departmental reporting.



Efficient operations

During 2011/12 we have spent more than £1.3 billion on goods, services and construction projects with our suppliers, who have a vital role to play in helping us achieve our sustainability goals, including reducing our consumption of energy resources, as well as minimising our environmental impact.

We seek to influence our suppliers through the conditions we lay down in our procurement procedures and by working in partnership with them in driving more efficient operations, for example, by minimising the use of chemicals in water treatment or maximising the amount of our waste materials that are reused, including finding more resilient and sustainable solutions for sludge disposal.

We also operate a 'managed loop' system for processing and recycling the material excavated from our streetworks and have achieved a 99 per cent recycling rate for this excavated material during 2011/12. By working with Mitie, our facilities management partners, we have diverted 86 per cent of our office waste away from landfill this year.

During 2011/12 we implemented a new system enabling us to exert influence further down our supply chain. We also held an annual Supplier Workshop to share experience on best practice and established a quarterly Environmental and Sustainability forum for our framework contractors.

In total, more than 14% of our electricity needs were generated using sewage sludge and 60% of dry solids recycled for agricultural use, something that will improve further as a result of the £250 million investment in our sewage treatment works that began in 2010.

Going forward, we will continue to address the challenge of reducing the amount of energy and raw materials used in delivering our services, and will do so in the face of increasingly stringent requirements for environmental quality, with their associated additional demands on energy and chemicals.

Efficient operations / Working with our supply chain

During 2011/12, we spent more than £1.3 billion on goods, services and construction projects with suppliers.

Our supply agreements are made following a competitive, fair and transparent bidding process. We aim to obtain the best overall value for money – not simply the lowest price.

We are committed to planning and operating in an environmentally, socially and economically responsible way. We seek to identify suppliers and contractors who demonstrably share this commitment and who can help us achieve our sustainability goals.

Sustainability principles are applied to our contractor projects throughout their lifecycle, from the design, proposal and planning stages, through to their phased implementation stages.

We also require our suppliers and contractors to provide sustainable products and services, in accordance with our policies, and we monitor their performance.

Efficient operations / Working with our supply chain / Supply chain management

We only engage with suppliers and contractors who can comply with our policies, these include our Procurement Policy, Environment Policy, Honest and Ethical Behaviour Policy and our Fraud and Bribery Policy.

The policies are included in our Request for Proposal document (RFP) which is used for all our agreement tendering. Contract Managers then review the tenders to ensure they meet our requirements.

Suppliers provide an essential contribution to the success of Thames Water in meeting our vision of 'zero accidents, zero harm, zero compromise'. It is vital, therefore, that we only select suppliers who can satisfy us that they have the competencies, systems and resources to safely undertake the work they are allocated. We work with our suppliers to ensure they meet our requirements including a thorough appraisal of their health and safety policies and management systems.

During 2011/12 we outsourced our 'Strategic Sourcing' function to Efficio Consulting Ltd who now negotiate and manage contracts on our behalf. This is a five-year contract which will deliver a significant improvement in savings, delivery and service levels to the business.

Efficient operations / Working with our supply chain / Payment terms

We work hard to maintain good mutual relationships with suppliers and a key aspect of this is ensuring we pay them on time.

When setting up payment terms, we take into consideration the size and situation of our suppliers, particularly our small to medium size suppliers. Where possible, we try to remain flexible and consider each case on a case-by-case basis, and where justified we are able to reduce the payment terms.

In 2011/12, we paid 92 per cent of all our invoices (more than 120,000 in total) in line with our agreed payment terms. This is a significant improvement on our performance in previous years (76 per cent in 2009/10) and demonstrates our commitment to treating suppliers fairly and ensures our transactional processes are as efficient as possible.

Efficient operations / Working with our supply chain / Capital programme investment

In our capital procurement programme, we implemented a new system which has enabled us to extend our buying power and influence further down the supply chains of our major contractors.

Working more closely with our construction partners means we have the opportunity to achieve economies of scale, a higher degree of standardisation and share best practice. This system has therefore enabled us to make major cost savings on our capital expenditure and has been recognised as industry-leading.

We invest around £1bn each year on improving our water and wastewater network - replacing ancient and worn out infrastructure, and adapting to the needs of a growing population.

Efficient operations / Working with our supply chain / Sustainability performance

When outsourcing work to potential contractors, they are audited as part of the original selection process to identify any environmental, social and financial risks.

The audit process forms part of a scoring mechanism which is used to award contracts and projects. We also impose certain requirements on these contractors to assess the environmental and social impacts of each stage of the outsourced activity. For Framework Agreement suppliers and construction contractors we

conduct either monthly or quarterly review meetings during which Environmental, Sustainability and Health and Safety issues are addressed.

We also work with our contractors to develop their own action plans and adopt processes to drive sustainability within their own supply chains through a robust assessment process which scores suppliers on a five-point scale.

During 2011/12 we implemented a new system which has enabled us to extend our buying power and influence further down the supply chains of our major contractors. Working more closely with our construction partners means we have the opportunity to achieve economies of scale, a higher degree of standardisation and share best practice. This system has therefore enabled us to make major cost savings on our capital expenditure and has been recognised as industry-leading.

Contractor emissions data is captured on an annual basis for specific types of work undertaken whilst engaged on Thames Water business. This is inline with the Ofwat requirement to provide carbon emissions data.

At Thames Water, it is important we share knowledge, provide information and advise all contractors on sustainability issues where we can.

We review the performance of our suppliers to identify opportunities for sustainability improvements in their supply chains, as well as their own operations. Our annual supplier workshop encourages and provides our base load suppliers an opportunity, to share their experiences and best practice sustainable outcomes, and also the challenges they may face.

During 2011/12 we set up a quarterly Environmental and Sustainability Forum to share learning and discuss how Thames Water can provide further support and assistance.

Efficient operations / Sludge management

Our works now produce more sewage sludge than they did in the past because of improved wastewater treatment standards and an increasing population. We expect this to continue, which means we must have beneficial and sustainable ways to manage sludge in the future.

During 2011, 259,384 tonnes of dry solids were produced. We put 100 per cent of this to beneficial use, sending none to landfill. The majority of this was treated and recycled to agricultural land as biosolids in order to provide soils with a valuable source of organic matter and nutrients. This is recognised as a best practice environmental option by the EU and UK Government.

The production, treatment and recycling, reuse or disposal of sewage sludge is controlled by comprehensive legislation, with which we have maintained 100 per cent compliance. We also comply with high quality requirements to reassure our stakeholders about the quality and safety of our biosolids and their use in agriculture.

Sewage sludge also has a high calorific content that we use to generate electricity through a process we call 'energy from waste'. During 2011/12 we generated 14.2 per cent of our electricity needs by using sewage sludge as a fuel source. These improvements will enable us to reduce our reliance on non-renewable energy, improve the quality of the sludge which is recycled to land, as well as save money.

In 2010 we began planning a £250 million programme which will complete in 2015, to modernise and enhance sludge treatment at the following sewage works: Beckton (Newham), Crossness (Bexley), Riverside (Barking and Dagenham), Beddington (Croydon), Oxford, Crawley and Chertsey. These improvements will enable us to reduce our reliance on non-renewable energy, improve the quality of the sludge which is recycled to land, as well as save money.

Efficient operations / Sludge management / Disposal to land

New legislation (Nitrate Vulnerable Zones) limits when we can apply liquid sludge to fields, in order to minimise nitrate run-off into rivers and underground sources.

We have installed dewatering equipment at seven works (Bracknell, Basingstoke, Camberley, Crawley, Chertsey, Woking and Cranleigh) which produces a drier material that we can recycle all year round. At two other sites it has been more cost effective to implement operational changes to tanker liquid sludge to dewatering plants at nearby sites.

We use two methods to create power from sewage sludge. In 'thermal destruction with energy recovery', sewage sludge – the solid content of the sewage – is dewatered to form a 'cake' which can then be burned to generate power. Secondly methane gas, derived from anaerobic digestion of sewage sludge, is burned in



an engine to generate power, with the heat recycled to heat the sludge digester. This is known as 'anaerobic digestion followed by combined heat and power'.

Our 25-year Sludge Strategy, published in December 2008, provided the framework for our sludge investment proposals. During the period 2010-5, we are investing in increasing our sludge processing capacity and in new enhanced digestion technology to expand our energy recovery by 50 per cent. This technology will maximise energy recovery and lessen the quantity of sludge we need to recycle by digesting more of the solids within it. Where there is suitable land available, recycling to land remains our favoured option.

During 2011/12 we generated 14.2 per cent of our electricity needs by using sewage sludge as a fuel source. This saved us £13 million and reduced our reliance on non-renewable energy.





How we do business

A truly sustainable business needs to demonstrate robust financial performance and the capacity to deliver long-term value for customers.

As the UK's largest water company, Thames Water provides an essential service that's at the heart of daily life, health and enjoyment, to customers across London and the Thames Valley, 24 hours a day, 365 days a year. This involves taking water from rivers and boreholes, cleaning it, and safely supplying it to 9 million customers. We then recycle 14 million people's wastewater safely back to the environment after treating it at our sewage works.

Since our business depends on a precious natural resource, we have a key role to play in protecting the environment in everything we do - for today and for the future. We strive to balance this responsibility with meeting the needs and expectations of our customers and stakeholders, who are the key focus of our business.

Within this section of our website, we report on the progress we have made on our journey to becoming a more sustainable business. We summarise our approach to sustainability, our performance during 2011/12 and provide an overview of our plans for 2012/13.

How we do business / Chief Executive Officer's foreword

The changeable weather we have seen recently has highlighted the variety of challenges we face as a water company.

We began by experiencing our second dry winter in a row, then saw weeks of rainfall through the spring and early summer. This has shown how important it is to plan for long periods of low rainfall, while also maintaining a sewer system that can cope with intense downpours. Both issues have been important aspects of our work in 2011/12.

For example, in line with our strong operational performance, we again achieved our leakage target, for the sixth year running. The mild winter helped us by bringing fewer burst pipes, but the hard work of our staff was vital in beating the target by a significant margin in preparation for the potential drought.

We accept that, for many of our customers and stakeholders, the level of leakage from our network is still too high, and we are carefully considering options to further reduce it in the longer term. Nevertheless, reaching the target was particularly satisfying, and all the more important in the context of the Temporary Use Ban we had to introduce in April 2012 in response to the drought.

The water use restrictions were necessary to ensure that water was used wisely, to avoid the need for more severe measures. Fortunately, in May and June it didn't just rain, it poured, and river levels recovered

rapidly – so that in mid-June, we were able to lift the temporary restrictions. The drought has again emphasised that water in our region is an increasingly precious resource.

Using water wisely is a major focus for our Innovation team, who designed the wastewater recycling plant we opened at the Olympic Stadium in east London.

This will take wastewater from the nearby Northern Outfall Sewer and turn it into water that can be used for irrigation and flushing toilets at the site. The plant will also be among the facilities passed on to the site's future users.

The wastewater part of our business was a major focus for much of 2011/12, thanks mainly to the major ongoing investment we are making to upgrade sewers and treatment works.

The biggest engineering project we began last year was work to drill the route of the Lee Tunnel, a huge new sewer which will collect untreated sewage that currently overflows into the River Lee at Abbey Mills. We also held the second stage of our public consultation on revised plans for the Thames Tideway Tunnel, an even bigger sewer which will intercept the 34 most polluting overflows along the tidal Thames in London. Like the Lee Tunnel, it will transfer the wastewater for treatment at Beckton Sewage Works in east London.

In addition to this, we have continued with our £675 million programme to modernise and extend the capital's five major sewage works, which will improve the quality of treated wastewater we discharge to the Thames.

All of the above work will help enhance the river environment – so it was particularly disappointing that we recorded 21 serious pollution incidents in 2011/12, including severe damage to the River Crane in west London. We recognise that these can have a devastating effect on rivers and other ecosystems and vow to work even harder to prevent this in the future.

Part of this challenge will involve managing an additional 40,000 kilometres of sewers, which were transferred to our ownership in October as part of national legislation. This new pipework, which was previously privately owned, has increased the size of our network by 60 per cent. We are working hard to ensure we maintain the high standards of service we set ourselves.

We continue to provide our customers with a reliable and high-quality product, with industry leading performance against the strict standards set by our regulators. During 2011, the standard of our drinking water rose to 99.98 per cent against national and European standards, and we continued to maintain 100-per-cent compliance with environmental permit conditions set for our 350 sewage works.

These achievements are of course down to the hard work of our 4,500 staff. Our ongoing investment in their development has included a range of leadership programmes for all managers across our business. More than 700 people have now completed these courses, which helped us win the award for staff development at last year's Utility Industry Achievement Awards.

As part of this, we continue also to highlight the vital importance of health and safety across all our activities. This has been a particular focus over the last year, so it was all the more distressing to report the death of



two of our contractors during the year. The safety of our staff and contractors, and anyone visiting our sites, remains an overriding priority.

Looking ahead, we have already begun work on the investment plans we will submit to Ofwat at the 2014 Price Review, and updating the wider strategy of which this will be a part. A key aspect of that will involve demonstrating how our proposals link to the priorities of our customers.

Of course, we already get regular feedback from our customers, which has underlined that customer service is an area where we need to improve. This is an urgent priority for us over the coming months. Talking to our customers and stakeholders will be more important than ever, to listen to their views both on our current service and our plans for the future.

Martin Baggs

Chief Executive Officer, Thames Water



How we do business

Our mission is to provide the essential service that's at the heart of daily life, health and enjoyment – and we aim to do it in the most sustainable way. To Thames Water, sustainability means doing the right thing for people, for the performance of our business and for the natural environment.

We are committed to conducting our business with integrity, openness and transparency and the decisions we make today need to ensure sustainable delivery of our services for the longer term.

Recognising that we cannot deliver these alone, we have developed strong working relationships with suppliers and regulators, enabling us to deliver better outcomes in partnership and collaboration.

As the largest water and sewerage company in the UK, our responsibility goes beyond our day-to-day obligations. Our leadership and expertise is central not just to safeguarding the water cycle for future generations, but also in contributing positively to tomorrow's low carbon economy.

In striving for a balanced outcome that meets our responsibilities, we will continue to engage with our customers, stakeholders, suppliers and regulators on our approach. While delivering our service to our customers, we also aim to provide safe and satisfying employment, and remain attractive to our investors.

How we do business / Programme and performance

A strategy for a sustainable future

To deliver a service fit for future generations, we need to strike a balance between the level of service we provide to our customers, our impact on the environment and communities, the level of customer bills and future investment in the business.

Our plans are therefore underpinned by five 'pillars' of sustainability, which apply across everything we do:

Environment – Communities – Workplace – Marketplace – Business

They are also informed by nine sustainability themes:

1. Precious water – driving down demand for water
2. Sustainable drainage – preventing sewer flooding and pollution
3. Efficient operations – reducing resources and cutting out waste
4. Responsible operations – investing in communities and being good neighbours
5. Climate change mitigation – reducing our carbon footprint
6. Climate change adaptation – building resilience to the effects of climate change
7. Customer inclusion – active engagement, improved access, affordable services
8. Sustainable workforce – attracting and retaining a talented workforce
9. Sustainable investment – a longer term view and sustainable financing

Our Corporate Responsibility and Sustainability Policy sets out how we integrate corporate responsibility measures into every area of our business and outlines our commitment to sustainability and being a good corporate citizen.

Our policy is being articulated through an emerging Corporate Responsibility and Sustainability Strategy, based on the nine themes outlined above. We need to determine the scale and pace at which we can move towards more sustainable practices; balancing the environmental benefits, costs to our customers and our ability to attract investment. Our strategy will inform, and align with, Thames Water's business plans and activities.

Our 25 year Strategic Plan is regularly reviewed and amended, and we will be consulting with our customers and other stakeholders during the current plan review process. Read about how we involve our customers in our future plans.

Every five years we publish detailed plans about how we propose to move towards our longer term goals, forming the basis of our Business Plan for the next Price Review period (PR14). These plans are discussed with our stakeholders and agreed through Ofwat's Price Review process.

This defines the outcomes we will deliver in the next five-year period, together with proposed changes to customers' bills that will allow the necessary investment in the infrastructure of the business to take place. The next Price Review will occur in 2014 and will set bills for the period April 2015 to March 2020. View our five year plan for 2010 to 2015.

Governance

Our Health, Safety and Environment Committee, chaired by non-executive Board Member, Gordon Parsons, advises our Board on any significant matters relating to corporate responsibility and sustainability (CRS).

Members of our Executive team have responsibility for specific parts of our CRS programme, with overall direction on CRS matters provided by our External Affairs and Sustainability Director, Richard Aylard.

Performance

This report provides an update on our progress across our nine sustainability themes and emerging corporate responsibility and sustainability strategy. We are proud of our achievements so far, and will continue to work hard to deliver the desired results for our customers and the environment. Read about our performance highlights in 2011/12.

We measure our performance against a wide range of issues.

Benchmarking against others

During 2011/12 we were pleased to improve our performance from 95 per cent to 98 per cent in the Business in the Community Corporate Responsibility Index and retain our Platinum ranking for the third consecutive year.

We have participated in the London Benchmarking Group reporting of community involvement since 2008. Read more about our Community impacts and initiatives.

As a member of Water UK, the body representing water companies and other water organisations in the UK, we take part in the annual reporting of Water UK Sustainability Indicators. This report is available on the Water UK website.

How we do business / Programme and performance / Reporting and assurance

Each household we serve will pay an average of £319 for the essential service we provide. We want to provide as clear a picture as possible of our performance and how we spend the money raised from customer bills, this web report aims to do just that.

We aim to provide an overview of progress on our journey to becoming a truly sustainable business. This report demonstrates how we are inclusive, engage with our customers and stakeholders and focus on key material sustainability issues including all issues affecting our customers and stakeholders.

Annual Performance Report

This report provides a summary of our performance during 2011/12 and focuses on the issues identified by our customers and stakeholders as 'of high importance'. This web report provides information on our performance across all areas over the last financial year, covering the period from 1 April 2011 to 31 March 2012, unless stated otherwise.

We continue to refer to best practice guides, such as the Global Reporting Initiative's Sustainability Reporting Guidelines and AA1000 principles.

Materiality

In 2010 we carried out a materiality assessment to help us decide which issues we need to focus our attention on and report progress against.

This assessment provided us with an overview of the relative importance of each issue to our business, our stakeholders and the outside world, which helped to inform our strategy and focus our resources more effectively.

All of our material issues are addressed in this report. Our Annual Performance Report focuses on the most significant subjects.

Assurance statement, objectives and methodology

SKM Enviro has conducted an independent assurance review of the Thames Water Utilities Ltd (Thames Water) Corporate Responsibility and Sustainability (CR&S) Report website 2011/2012.

The intended user of the statement is the reader of the Thames Water CR Report.

How we do business / Engaging with our stakeholders

Our activities from routine maintenance to major engineering work, can affect many people. Organisations and individuals have a wide range of views and expectations about our work and it is essential we engage with them. Through this dialogue, we can better appreciate and respond to their feedback.

We communicate our plans for our major engineering projects, liaise with local, regional and national government and carry out public consultation exercises. Our work ranges from one-to-one briefings, round table discussions, surveys, focus groups, independently-hosted online consultations and site visits. This involves MPs, London Assembly Members and other key stakeholders, where issues discussed range from those of local interest through to our plans on strategic issues where we seek feedback on our approach, such as market reforms in the water industry and the management of water sources.

How we do business / Engaging with our stakeholders / Communicating with our community

It is vital that we communicate our plans and progress on our wide variety of network and site improvement projects which are likely to affect residents, businesses and other members of our community.

Communications activities include organising 'drop-in' sessions for local people to meet project representatives; producing letters and leaflets explaining our work, gathering customer feedback on our activities; organising site tours, public drop-in sessions and home visits for personal engagement and initiating or taking part in community outreach to build local relationships. Communications are carried out in collaboration with the contractors who carry out improvements on our behalf.

During 2011/12 we:

- Created a Community Speaker Scheme for contractors so that they were able to go into schools and community groups to raise awareness among customers about our work
- Began auditing contractor communications performance
- Worked with contractors on communications for high risk projects, including work in high profile areas such as the City of London Corporation area.
- Worked with contractors on communicating the Victorian Mains Replacement programme as it moved out into the Thames Valley

Our Major Projects team delivers tailored communications for our high-profile complex engineering projects, including a number of projects to help clean up the River Thames. They involve extending and upgrading London's five main sewage works and building the Lee Tunnel – a four-mile sewer which will capture storm sewage.

During 2011/12 we:

- Ran a competition in June for 1,500 primary school children to name the Lee Tunnel boring machine. This was followed by an event in December for the winner and a number of stakeholders to witness the lowering of the boring machine underground.

- Issued quarterly newsletters for Beckton and Mogden Sewage Treatment Works, reaching audiences of over 10,000.
- Organised a number of site tours and presentations for residents' groups, investors and a wide range of political stakeholders to see the work we are carrying out first hand and receive a detailed update.
- Took part in a number of outreach opportunities to help strengthen our community relations. This involved talking to local schools about careers in engineering, and assisting with community clean-ups along local rivers.
- Held a number of drop-in sessions for customers affected by our work and continued to carry out home visits.

How we do business / Engaging with our stakeholders / Regional and local government

We work closely with key stakeholders in local and regional government. Developing and maintaining good relationships helps ensure we are able to meet the commitments of our regulatory contract and communicate effectively in areas where there are major sites or engineering works. We proactively contact stakeholders to give early briefings on our projects and seek to take into account other planned works to ease the impact on the local community.

During 2011/12 we continued to strengthen ties with local authorities in our region. At a pan-London level, we worked closely with the Greater London Authority, London Assembly and the Mayor on a variety of issues. This has included working with the Mayor on his Streetworks Code of Conduct, hosting a visit to Beckton for members of the GLA Environment Committee and contributing to the committee's work to determine priorities for 2012/13.

We worked closely with many of the 106 local authorities across our area, seeking to ensure we carried out our operational activities and engineering work with the minimum of disruption. We attended several formal scrutiny and public meetings, giving evidence and responding to questions and feedback from councillors, officers and the public.

Among our activities, we held quarterly update meetings with Westminster City Council and attended the London Councils Summit to talk to councillors from across the capital on a range of topics. Outside the capital, our work included attending regular Oxford Strategic Flooding Group meetings and working with Swindon Borough Council as part of the Save Water Swindon initiative.

How we do business / Engaging with our stakeholders / Public consultations and research

The focus on public consultations work has again increased this year. We have a number of major projects either under way or proposed which we recognise could adversely affect large numbers of stakeholders and customers. These have led to our highest level of public consultation to date, as we seek to make sure our plans reflect their views wherever possible.

Thames Tideway Tunnel

We have now held two phases of consultation on the Thames Tideway Tunnel. The feedback from these phases is informing final proposals on the construction of the project, while providing an opportunity to address concerns about the potential adverse effects on local communities, businesses and the environment.

We continued to attend community and residents' groups and public meetings, as well as arranging briefings with local authorities, MPs and others. We also arranged interim customer consultation activities in advance of the second phase of the project, in which new sites had emerged since the first phase of public consultation.

We also continued to host the quarterly Thames Tideway Tunnel Forum to brief stakeholders on progress and seek their views on proposals.

Deephams

We are proposing a major upgrade at Deephams Sewage Treatment Works which serves around 900,000 people in north-east London. This will ensure it complies with new environmental regulations that take effect in 2017 significantly improving the quality of treated effluent returned to Salmon's Brook, a tributary to the River Lee.

During 2011 we set up a quarterly forum to share information about the project, answer questions and concerns, and seek feedback on our proposals.

We plan to hold the first phase of public consultation in summer 2012 to examine the choice of preferred site and treatment technologies for the upgrade, and also consider other options proposed. A second phase of public consultation is planned for 2013.

Involving customers in our future plans

Our plans for the future need to balance the service we provide to customers, our impact on the environment and the level of customer bills. An understanding of customer preferences is therefore an important input to our decision making process.

In September 2011 we initiated a qualitative study of domestic and business customers to understand the relative priorities they placed on different elements of their service. We used the output from this to further explore the relative values that customers placed on improvements or deteriorations to levels of service they currently receive.

We established a **Customer Panel** of around 2,000 volunteers who have agreed to participate in either online questionnaires or face-to-face focus groups, enabling us to easily and quickly engage with our customers. It has been used to gain feedback on issues such as willingness to pay and alternative supplies of water.

Our newly established **Customer Challenge Group** has an independent chair and vice chair, and members include industry regulators, domestic and business customer representatives and other key stakeholders. The role of the group is to challenge our interpretation of customers' views and how we have reflected them in our strategy and business plan.

Our revised **Water Resources Management Plan 2009** consultation ran from December 2011 to January 2012. A programme of engagement with regulators and stakeholders for the Water Resources Management Plan 2014 is now well under way. Following research into customers' expectations during drought periods, we held a public consultation on our draft Drought Plan from December 2011 to February 2012.

Workshops and focus groups were held with customers and topics covered included: how best to communicate about the drought, the design of our bills and how to inform people about the transfer of privately-owned sewers to Thames Water's ownership.

How we do business / Engaging with our stakeholders / Working with our wider stakeholders

Visits to our sites

We hosted a visit to our historic Abbey Mills Sewage Pumping Station in November for Defra's water quality team so they could better understand some of the issues facing us and other water companies. We also ran an event for local stakeholders marking the lowering of the Lee Tunnel boring machine in December. In addition, we were pleased to host two visits for Environment Secretary Caroline Spelman, firstly to our Beckton site in east London to view our desalination plant and our work on the Lee Tunnel; and secondly to an event which marked the opening of our innovative Old Ford Water Recycling Plant which treats sewage to provide water for irrigation and toilet flushing at the Olympic Park.

Read about how we open up our sites to our customers and community and our involvement in Open House.

Annual stakeholder event

Our **Annual Stakeholder Review** event presents another opportunity for our stakeholders to raise issues of interest to them and concerns about any aspect of our business. We also use feedback gathered at this event to ensure our Corporate Responsibility and Sustainability communications are providing them with the information they need.

Our 2011 event attracted over 50 representatives from key stakeholder groups. We presented on issues ranging from the London Tideway Improvements and wastewater services to customer research findings. An open panel discussion provided delegates with an opportunity to ask questions directly of the Chief Executive while a networking reception helped to build important relationships between key Thames Water staff and other interested parties. The feedback we received was very positive and many of the delegates expressed an interest in attending the 2012 event.

How we do business / Sustainable and safe workforce

We strive to recruit and retain the best people, providing them with the support and opportunities to maximise their potential. We aim to ensure our employees are engaged and focused and that they, as well as our numerous contractors, visitors and general public, remain safe on our sites and when we are working in the street. The health and well being of our people is also important to us, we have a range of initiatives to help them to keep fit, eat well, stay healthy, and manage stress.

During 2011/12, we further developed our People Strategy. We want to make sure our people have the right skills and the right opportunities. We will work with managers to create a positive environment where we understand our role, feel excited about it and have a clear idea of how we can give our best to our customers and each other.

During 2011/12 we launched a 'new employee' website to welcome new starters and help ensure they knew as much about us as they needed to before they started. The aim of the site is to make the first day for our employees a positive experience and reduce the amount of time managers need to complete an induction. It was also launched to invite people in to the fascinating and complex life of the UK's biggest water and sewerage company. **Our World** is an interactive tool guiding visitors through the treatment process and the job roles that come together to make Thames Water operate.

How we do business / Sustainable and safe workforce / Health and safety

Health and safety at Thames Water is a priority for our own employees, our contractors and our visitors. During 2011/12 we launched our vision:

To achieve zero accidents and zero harm, to our staff, contractors and everyone affected by our work, by never compromising on health and safety.

The vision is based on seven aims from which we have produced a 10-year health and safety business plan. Our seven aims are:

- Everyone employed at Thames Water keeps themselves and others safe and healthy.
- Everyone has the opportunity to improve their own health and well-being.
- Everyone has the skills to do their job in a safe and healthy way.
- Everyone has a safe and healthy place to work in.
- Everyone has the information to look after their own health and safety.
- Health and safety is part of every manager's daily routine.
- We are actively engaged with our contractors on health and safety.

Health and safety management system

In 2010 we implemented an integrated health and safety management system which strengthened our legal compliance and reduced accidents, as well as helping our leaders and managers to engage on health and

safety matters with their teams. Our focus over the past year has been on embedding the health and safety management system throughout our operations and build on it by:

- Launching a behavioural safety programme.
- Introducing a health and wellbeing programme.
- Improving the health and safety of our contractors.

We have an in-house team that provides training to managers and employees in health and safety, including mandatory training for all managers on risk assessment, engaging with contractors and managing health and safety in Thames Water. We ensure that any individual assigned a specific safety role receives appropriate training. During 2011/12 over 5,500 'man' days of health and safety training were given of which 2,100 were for managers.

Collaboration

We have established a Health and Safety Leadership Team with our contractors to work together to eliminate injuries from the workplace through the transformation of behaviours. Together a number of initiatives have been implemented:

- Inspirational leadership
- Behavioural based safety
- Essential safety information
- Risk assessments
- Effective health and safety management

Through this team an online health and safety resource, the One Safety Hub was built. It contains best practice in health and safety from ourselves and all our contractors. It's built on the principle of reducing accidents and saving lives by sharing lessons learnt. During 2011/12 we have improved the sharing of safety alerts raised in individual companies across the contractor base. We will develop the hub further during 2012/13.

In 2010 we launched the first annual AMP5 Excellence in Health and Safety Awards, celebrating excellent work in health and safety across our contractor base. In 2011 this was expanded to include Thames Water employees and celebrated achievements in health and safety right across our business.

During 2011/12, our health and safety performance improved significantly with a 32 per cent decrease in reportable accidents compared to the previous year and a 48 per cent decrease since the start of AMP5. The key measures for 2011/12 show a continued improvement in safety engagement among our employees with more health and safety visits and inspections by managers and more hazards/near misses being reported and resolved.

We are saddened to report the death of two of our contractors during the year. The first was fatally injured while working in an excavation. At the time of reporting, this is still under investigation by the HSE. The second contractor was killed in a road accident; struck and fatally injured when a driver drove through a coned off area of the road. The driver was later convicted of causing death by dangerous driving.

Key measures

Indicator	Benchmark 2012/13	Actual 2011/12	Actual 2010/11
Accident Injury Rate – based on reportable accidents under RIDDOR	0.20	0.27	0.39
Hazards/near-misses reported and investigated	10,073	8,863	2,337
Executive/Senior Mgt H&S Site Visits	400	249	12
Management H&S Inspections	8,280	7,363	1,222

How we do business / Sustainable and safe workforce / Wellbeing

As part of our drive to improve the health and wellbeing of our people, Occupational Health and Wellbeing is a key element of our 10 year Health and Safety transformation program.

We place great importance on every one of our employees having the opportunity to improve their own health and wellbeing and have a calendar of events to raise awareness of health issues.

During 2011/12 we:

- Continued to provide Workplace Options, a telephone based service offering independent confidential advice and support to help resolve stress related issues. Online cognitive behavioural therapy is also available via an online questionnaire.
- Held a three day managing change conference, where approximately 750 of our managers attended a session on emotional wellbeing through change. These sessions were a short introduction to a full programme of half day workshops which were then rolled out across the business.
- Continued to fund access to physiotherapy services for employees experiencing musculoskeletal problems, promoting early recovery rather than prolonging ill health. As part of our measures to reduce the incidence of musculoskeletal problems, during 2012/13, we are planning to introduce a new manual handling training program which is designed to reflect the types of work and environments our staff work in.
- Undertook a Winter Campaign aimed at raising awareness of how to keep well and healthy during the cold weather. We posted a series of cold weather tips and short films online advising our customers and community of simple ways to protect themselves and their homes.
- Continued to run “pressure stations”, drop in sessions where employees could have their blood pressure checked and receive advice on a host of wellbeing issues. These continue to be popular amongst employees and sessions are well attended.
- Provided all employees access to ‘Benefits on Tap’ where benefits range from discounts on Bicycles through to Spa days and other services promoting a healthy lifestyle. All employees are offered free eyesight checks with an allowance towards necessary corrective spectacles or lenses.
- Are in the process of developing key guidance documents for managers on common health problems to help improve their management and support of employee’s experiencing these conditions in work or returning to work.

- Undertook a number of events in line with national awareness campaigns, including 'Movember' and Breast Cancer Awareness Week.

Developing our programme

Our Human Resources Director has overall responsibility for wellbeing issues across the business supported by our Health Manager, newly appointed in 2012 and responsible for driving and delivering our health and wellbeing strategy. During 2011/12 we also created a wellbeing working group comprised of employees and managers across the business to develop and deliver a wellbeing program.

As part of our monthly Health and Safety Key Performance Indicators (KPIs), we report on health issues monitoring the causes for ill health referrals and positive health measures being conducted. We monitor short and long term sickness trends, track this information to assess the effectiveness of our programmes and tailor our programmes to address the issues which are of the highest importance. We also recognise the benefits of early intervention for individuals as well as the business and aim to create a service that can respond accordingly.

As part of our monitoring of health and wellbeing issues and identifying key areas of action, during 2012/13 we will be developing tools that will facilitate more effective recording of data; this will enable improved data analysis to identify emerging trends.

We will also be working with key managers and employees across the business to look at how we can further reach our employees in the field who have little or no daily access to the intranet.

During 2012/13 we will also develop a wellbeing and stress policy which will set out our commitment to promoting the health and wellbeing of our employee's drawing together key elements from other policies within the business which are already in place. We will also develop a stress toolkit comprising of training and guidance for managers on recognising and managing employee's with symptoms of stress related ill-health; and for employee's on recognising and managing their own stress levels.

We will continue to work with our caterers, Charlton House, to support our initiatives with healthy eating ideas that we can share across the company. Not only do they offer healthy choices, they also carry out their own promotion of locally grown and sourced sustainable ingredients.

We also encourage the wellbeing of our wider employees, those working on our behalf for our contractors. During 2012/13 our Health & Safety contractor conference will have a health theme so to encourage our contractors to take a more informed approach to health and wellbeing and to encourage sharing good practice.

How we do business / Sustainable and safe workforce / Engaging our employees

We aim to create and provide a positive environment where our people are actively engaged, understand their role in the business and the value they add.

We run an annual employee engagement survey, which gives our employees the chance to confidentially provide their honest views on what it is like to work for Thames Water, their team and their manager. Known as the Q12© survey, it is run by Gallup and is now in its sixth year.

We have 100 Q12© employee engagement champions who are volunteers from around the business to support the survey, all of our managers are trained on effective employee engagement to add further support. Teams throughout the company follow an impact planning process which involves identifying issues for improvement in their part of the business, deciding what action to take to make their team a better place in which to work.

We have seen a year-on-year improvement in employee engagement, achieved from our low starting point in 2007. During 2011/12 our score increased by 26 per cent on the previous year. This improvement comes against a backdrop of continued organisational change. We intend to enhance the survey in 2012 to also measure employee views on our customer service, leadership and health, safety and wellbeing.

Employee Recognition Awards

We have an Employee Recognition Scheme, a formal way to say thank you to the people that role model our five values: committed, challenging, supportive, reliable and purposeful, and for delivering our desired customer experience.

During 2011/12 we also included additional categories to encourage and highlight the great work in two key areas: Volunteer of the year and Excellence in health and safety behaviour.

Hero of the Month

We also introduced our 'Hero of the Month' award where each month our Chief Executive, Martin Baggs, will choose a 'Hero' from the nominations put forward. Nominations can be made by any of our employees for living one of our five values or for delivering something amazing for customers that deserves wider recognition.

Long service awards

The success of Thames Water is in no small measure due to the contribution made by employees - who have remained loyal to the company over the years and worked hard to get it where it is today. Thames Water feels that it is important to recognise the achievements of those individuals who have been loyal to the company.

How we do business / Sustainable and safe workforce / Learning and development

Learning and development is fundamental to ensuring we have capable, confident and skilled people in all parts of the company. We are committed to developing all our employees, as we realise the success of our business is highly dependent on the quality and performance of our staff. We need to ensure we have the right people with the right capability to lead the business now and in the future.

Our aims are to:

- Enhance our talent management processes to maximise individual performance and potential throughout a career cycle.
- Continue to drive comprehensive learning and development to ensure we have the right skills and capabilities to meet customer expectations and measures, regulatory standards and enable career progression.
- Develop focussed future talent pipeline programmes to target identified risk skills and areas.

During 2011/12, 14,300 formal learning and development days were delivered.

Our Talent Management team won the Staff Development Award at the 2011 Utility Industry Achievement Awards. This reflected a wide range of initiatives, including development opportunities for all, our leadership programmes aimed at all managers within the company and our approach to our apprenticeships, graduate schemes and bursaries.

During 2012/13 our focus will be on the future leadership and management capabilities of our employees, to develop overall confidence and competence and further developing the current leadership programmes. Initial phases of developing career paths are also taking place to support the development of employees, for example, who may prefer to follow a technical path as opposed to a leadership or managerial one.

How we do business / Sustainable and safe workforce / Diversity

Thames Water's workforce is made up of different people, some differences are obvious and some less so. The company believes that recognising and celebrating these differences creates a better atmosphere in which everybody feels valued, talents are fully realised and organisational goals are met. We understand the importance of harnessing and utilising an individual's differences which lead to a more culturally diverse team, offering more creativity which ultimately helps to contribute more effectively to meeting our goals and better serve our diverse customer base.

Currently, 83 per cent of our employees are white, with 17 per cent of our workforce declaring themselves in 2011/12 to be from an ethnic minority group. 70 per cent of our workforce is male, with around 26 per cent of our 398 management grades female (equalling 2010/11's figures).

We remain committed to attracting a more diverse workforce using a variety of strategies including advertising and online recruitment and strengthening links with external organisations. Throughout 2011 we continued our cultural awareness training to support our diversity agenda.

How we do business / Sustainable and safe workforce / Talent management

We have continued to focus on talent management to maximise the performance and potential of employees throughout their career and ensure we develop managers for the future.

We have continued to further develop our 'Talking Talent' process across the company not only to support succession planning and development, but to identify talent risks. We encourage a culture of performance and engagement, and carry out 'performance development reviews' for all employees which link individual objectives to Thames Water's business plan and assess to what extent employees live our company values.

During 2011/12 we continued to roll out our core leadership development programmes, at both foundation and advanced level and to ensure we have the right leadership both now and in the future. We have celebrated and recognised 384 employees to date who have successfully achieved their 'Licence to Lead'.

Our Graduate Programme is all about creating future people managers and leaders. Graduates will be provided with an opportunity to gain real management experience and professional technical qualifications within a defined programme. Each graduate is placed into a real business role, in some cases leading a team of around 10 to 15 individuals, during 2011/12 we took on 24 graduates as part of this programme.

Thames Water is committed to 'growing its own' by developing new talent and have been operating successful Advanced Apprenticeship Programmes for many years. They enable the company to create skilled teams that develop through on and off the job learning and to meet future demands for skills and technological expertise. We currently have over 40 apprentices in the business at various stages of learning. We are once again investing in our development schemes and will be looking to take another 18 Apprentices on board in 2012/13.

During 2012/13 our focus will be on undertaking a future skills audit in order to enhance our plan to address skills shortages across the business. We are also looking to implement a Thames Water coaching and mentoring programme, and will further develop our talent strategy to deliver excellent customer service.

How we do business / Sustainable and safe workforce / Partnerships

We pride ourselves on our partnership approach to working with our trade unions to ensure our employees' voices are heard on the issues that matter most to them. Whatever we are reviewing, changing or introducing - we do it all in partnership.

We work in partnership with our three recognised trade unions – GMB, Unison and Unite. Under our Partnership Agreement, we recognise our employees and their representatives have key roles to play in the future success of the company. We actively engage with our trade unions and have adopted an approach of sharing key business performance information and metrics with them on a quarterly basis to ensure that our representatives understand the needs of the business and our customers.

We regularly inform, consult and negotiate with our trade unions on a wide range of issues through an established process – the Thames Water Partnership Forum. Each year, our representatives have the opportunity to comment on our People Strategy and we also meet on a regular basis in order to work together to deliver policy changes which meet the needs of our customers or respond to changes in legislation or ACAS codes of practice, as well as involving them in some key employee initiatives such as employee engagement, PDRs and succession planning.

How we do business / Financed for the future

A truly sustainable business needs to demonstrate robust financial performance and the capacity to deliver long-term value for customers.

This year we delivered over £1 billion of investment in new and existing assets, including pipes, sewers and water and sewage treatment works. We delivered £6 million worth of efficiencies in the day-to-day costs of running the business, which will help to keep customers' bills low in future.

We operate in a sector where the level of bills we charge our customers is strictly controlled by a financial regulator and where efficiency and wise investment of funds is therefore crucial.

At the same time, we are entering into our biggest-ever five-year capital investment programme, in which profits are important in continuing to help fund the major improvements we are making to our infrastructure.

How we do business / Financed for the future / Running the business

The day-to-day running of our business in London and the Thames Valley cost £666 million in 2011/12, an increase of £39m compared to 2010/11.

The main reasons for this were an increase in customers not paying their bills, higher interest rates on our borrowing, increases in energy prices and the Government's Energy Efficiency Scheme (Carbon Reduction Commitment), effectively imposing an additional tax on our carbon emissions.

Despite this, we delivered efficiencies which offset these additional costs and enabled us to exceed Ofwat's target for our level of operational expenditure by £6m. This saving will help to keep customers' bills low in the future.

We used £1.8m of this saving to help disadvantaged customers to pay their bills through the Thames Water Customer Assistance Fund.

Why we need profit

In order to finance our extensive and essential investment programme, it is vital we remain attractive to investors by maintaining a level of profitability that provides for a reasonable return on investment. Our

financial obligations are met from our customer revenues, whilst our expenditure and return on capital is regulated by Ofwat as part of the Price Review process every five years.

Profit enables us to sustain our operational activities to:

- Fund our capital programme
- Pay interest on our debt
- Pay our taxes
- Return a dividend to our shareholders.

We also need to be able to raise debt at competitive interest rates, which is ultimately in the best interests of our customers. The credit ratings agency Standard & Poor's maintained our A- status awarded in 2011, reflecting the stability we can offer investors and lenders against a global financial landscape rocked by increasing uncertainty in recent years. It is only by sustaining this level of profitability that we can continue to deliver the investment and service to customers we are committed to and to drive forward further efficiency.

Maintaining low cost investment

In 2010/11, we began a five-year, £4.9 billion programme of essential work to improve our network of water pipes, sewers and other facilities.

Ofwat determined the 'outputs', our activities and the results to be delivered, for our £1 billion-a year investment programme at the 2009 industry Price Review, when customer charges for 2010-15 were set for all companies in England and Wales, together with the associated investment programmes.

Last year we carried out just over £1 billion of this work, which included protecting customers from sewer flooding and continued work on our £675m programme of upgrades to London's five main sewage works. It also included the five-year construction of the £635m Lee Tunnel to stop raw sewage overflowing into the River Lee during high rainfall.

How we do business / Financed for the future / Financial performance

In 2011/12 our profit before tax was £169 million which excludes a one off exceptional item of £40m relating to changes to the company's pension scheme.



This was £27m below the £196m achieved in 2010/11, reflecting the increase in running costs, increased depreciation and interest cost offset by higher turnover. The higher depreciation and interest is a result of substantial investment in the network of pipes, sewers and other facilities.

We're working hard to mitigate the impact of external factors, and we remain focused on operational efficiency and safeguarding our services for the future.

Household bills

This year each Thames Water household will pay an average of £339 for their water and sewerage services, an increase of £21 from the £318 for 2011/12. That equates to 93 pence a day – the second-lowest bill among the major water and sewerage companies.

Of this £21 rise, £15 is due to inflation and charging base movements, with the remaining £6 required to fund the additional investment in our services which provide benefits for our customers and the environment.

The average household bill is, by definition, an average across all household customers. Individual customers' bills may be more or less than the average because of their particular characteristics, for example, whether they have a water meter.

How we do business / Innovation

We are determined to be at the forefront of water industry innovation.

We are constantly trying to run our business in greener, more cost-efficient ways to make what we do simpler, cheaper and better-performing in terms of efficiency and improved standards of service, while meeting increasingly challenging, environmental standards.

How we do business / Innovation / Innovations from 2011/12

Innovation at the Olympics

In May 2011 the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) appointed Thames Water as a tier three sponsor of London 2012, naming us Official Water Utility Services Provider of the Games. It was our job to provide all water utility and waste water services at London 2012 venues, ensuring clean, reliable tap water and sanitation to the Games.

We also won a contract with the Olympic Delivery Authority to build the UK's biggest ever black water recycling plant on the edge of the Olympic Park. The Old Ford water recycling plant recycles up to 570,000 litres of treated sewage for non-drinking purposes, including the heating and cooling of the Energy Centre, watering lawns and flushing toilets at the Olympic Park.

Mitigating Climate Change

We have commissioned an innovative biogas injection plant at Didcot Sewage Treatment Works, the first commercial plant in the UK. This will enable us to supply renewable sewage gas to the grid, which will contribute towards the UK reducing its greenhouse gas emissions and meeting renewable energy obligations.

We installed industrial-scale photovoltaic cells on redundant space at three of our London treatment works. Together, they covered space equivalent to 15 football pitches. This was funded via an innovative long-term procurement approach with a number of PV developers and investment funds, with no additional cost to our customers.

The schemes at Beckton and Crossness Sewage Works and Walton Water Treatment Works, together with 28 smaller installations, gave a combined installed capacity of 4.9 MW. This makes us a significant user of solar power in the UK and compliments our existing and growing generation activities from sewage.

Stefano Gambro, Director, Ennoviga Solar (PV Developer), said:

“By working with us, Thames Water has led the industry in exploiting otherwise unusable space to generate clean electricity. When energy prices rise... the impact on Thames Water customers’ bills will now be that little bit less.”

TrunkMinder

We are installing innovative ‘TrunkMinder’ monitors on our largest pipes, known as trunk mains, to identify underground leaks as soon as they form. This allows time to spot a leak and repair it before it becomes a major burst. If a leak does occur, the technology raises the alarm so we know where it is on our pipe network and fix it more quickly.

Smart Metering

As part of our ongoing programme of work to reduce leakage, we are carrying out a trial in some areas of London, Reading and Swindon, using two smart water meter technologies. These technologies allow us to read water meters remotely in near real time. This will then allow us to identify when and where leaks occur on the water supply pipe and enable us to respond faster. By analysing these ‘reads’, we will see if water use is unusual, which could either be caused by high use or small but constant use. Either of these could indicate a leak on a water supply pipe. It will also help us manage our distribution network better through more accurate and quicker identification of areas with leakage and therefore allow better targeting of our leakage control activities.

Sewer Alarms

During 2011/12 Thames Water innovators created an early-warning system for homes at risk of sewer flooding. The device sounds alarms, triggered by air pressure, if drain flows get too high. We were finalists in the 2011 Water Industry Achievement Awards ‘Most innovative new technology of the year’ category.

During a four-month trial 60 properties that had experienced sewer flooding in the past across south London, west London, Oxford and Reading had alarms fitted. Five blockages were cleared as a result. In the year ahead we will be linking the alarms direct to the Thames Water operations centre to improve emergency response time.



Precious resource

We supply drinking water to around nine million people across London and the Thames Valley every day. Water is often taken for granted, with each of us expecting a plentiful supply every time we turn on the tap or flush the toilet.

But water resources are under pressure; the Environment Agency has classified the South East of England as seriously water stressed, and the impacts of climate change and a rising population will place further pressure on water resources. The Water White Paper published by Government in December 2011 set out the need for action to ensure resilient and secure supplies, now and in the future.

On average our customers use around 162 litres of water per person per day, the Government has set an aspiration to reduce this amount to around 130 litres by 2030. This is a challenging aspiration and will require concerted effort by many parties including Government, local authorities, water companies and individuals to achieve. Treating water as a precious resource is a key to how we do business. Our plans include a range of activities to help drive down demand, including promoting water efficiency, installing meters and tackling leakage.

The 2012 Drought

Winter rainfall is crucial to recharging our natural resources when rain is able to soak through the soil and top-up underground aquifers. In April 2012, following the driest two-year period on record, we were one of seven companies across south and east England who jointly introduced a Temporary Use Ban (TUB), formerly known as a hosepipe ban to restrict usage. Our customers responded positively by reducing their water use by more than 100 million litres a day during the hot spell in May. Since the announcement of the TUB we received an extraordinary amount of rain which eased the severity of the water shortage and enabled us to lift restrictions in June.

This section provides information on our current water resources, how we plan for water resources over the long term, actions to achieve a reduction in the amount of water that is used through leakage management, the promotion of metering, the wise use of water and work to identify new water resources. This section also includes information on drinking water quality.

Precious resource / Clean and safe drinking water

Our customers rightly expect a reliable supply of clean, safe, drinking water, thorough and rigorous test results show our drinking water is among the best in the country.

To maintain these high standards, we carry out tests on water samples routinely collected from our treatment works and reservoirs and randomly selected homes and businesses. Our drinking water is among the best in the country.

During 2011 we carried out more than 450,000 tests to ensure our water met stringent UK and European standards. The number of samples which failed standards fell from 77 in 2010 (99.97 per cent compliance) to 51 (99.98 per cent compliance) during 2011. In each case, the failures were thoroughly investigated to ensure the water was safe to drink. Where appropriate, we took remedial action to prevent a recurrence.

We also saw a 14 per cent reduction in customer complaints about our drinking water quality. Our water supply system serves close to nine million people, and unforeseen events occasionally result in some customers receiving water that does not meet our usual high standards. All are immediately investigated. Of the small number of failures, many are caused by customers' fittings. During 2011/12, there were 42 drinking water events investigated by the Drinking Water Inspectorate (DWI), 12 of which were classified as being significant.

Making further improvements

During 2011/12 we continued working with farmers and manufacturers to reduce the need for pesticides. By influencing the application and types of pesticides used, our aim was to minimise the risk of run-off into rivers, from which we take water.

We provided a free training course for farmers to help them to help us safeguard water quality. In 2011/12, 25 farmers visited Farmoor Water Treatment Works, near Oxford to find out more about water treatment and the potential impact of their operations. This event was promoted through Campaign for the Farmed Environment, with who we have worked for the last year, as well as the National Farmers Union and the Country Land & Business Association. This initiative is part of a five-year programme to explore whether working with stakeholders can reduce pesticide levels in raw water reducing treatment costs and associated carbon.

Replacing lead pipes

Many older properties across the region have lead pipes up to their sink which can increase lead levels in tap water. However, the hard water that occurs naturally in our area forms a scale on the inside of the pipes which helps reduce lead concentrations. During 2011/12 we introduced additional treatment processes to further reduce lead levels across 95 per cent of our output.

Additional treatment processes have been effective, but in some areas samples continue to show higher lead levels than required by 2013 standards. In our investment plans, agreed with Ofwat and the Drinking Water Inspectorate, we aim to replace more than 30,000 pipes in these areas.

Fluoride

We don't add fluoride to any of our water supplies. In some parts of the UK arrangements have been made with the local water company to fluoridate tap water in an effort to reduce tooth decay. We have not been approached to do so and are not aware of any such proposals in our region.

Customer queries

Customers often contact us with queries about the quality of their drinking water. During 2011/12 we received 43,419 general enquiries regarding our drinking water of these 17,843 were enquiring about the hardness of their supplies.

Over the same period, around 3317 people contacted us about problems with the taste, odour or appearance of their tap water. We can sometimes resolve these queries over the phone, but on other occasions may need to make a more detailed investigation.

Data from the Drinking Water Inspectorate (DWI) shows that the number of complaints we received per 1,000 people was 0.62 – well below the 2011/12 industry average of 1.91.

Precious resource / Promoting our product

Our London on Tap campaign was launched to give Londoners the confidence to ask for tap water as an alternative to bottled brands while eating out.

Our tap water is 500 times cheaper than bottled alternatives and is kinder to the environment, emitting 300 times less CO2 to process. During the year we donated over 3,000 award winning London on Tap carafes to charity partners to encourage the drinking of tap water in workplaces and restaurants across London.

We also work on projects focused on behaviour changes by challenging customers' perceptions of tap water. We are currently developing a competition for schools to promote tap water both in the home and at school. Primary school pupils across London will be invited to design a new logo and strapline for our sports water bottles linking in with Thames Water as official providers of water services to the 2012 Olympic and Paralympic Games. The winning designs will feature on the sports bottles and will be distributed to customers and schools throughout our region. The best entry will also win a Hydrachill tap water dispensing machine for their school.

Precious resource / Ensuring we have sufficient water resources

Every five years we produce a Water Resources Management Plane (WRMP), the plan sets out how we aim to meet predicted demand for water over the next 25 years.

We plan ahead to ensure we can meet demand. The WRMP consists of several elements, including:

- A 25-year demand forecast describing how much water customers will need in the future, considering factors such as climate change and population growth.
- A 25-year supply forecast describing how much water is available for use now and how this may change in the future, considering the impacts of climate change and potential reductions in the volume of water we are allowed to take from rivers and boreholes.
- An assessment of the options to manage demand, including installing water meters at customers' properties, helping customers save water and reducing leakage.
- An assessment of the options to obtain more water such as schemes to take water from rivers or boreholes, including an environmental, social and carbon assessment.
- A Strategic Environmental Assessment (SEA), which aims to assess the state of the environment, considers the potential impacts of the plan on the environment and a Habitats Regulation Assessment (HRA) which considers whether the plan in question is likely to have a significant effect on European sites designated for conservation value.
- Our WRMP09 covers the period 2010-2035 and is available to download.

In developing our strategy to provide water, we need to consider how water availability and quality may change in the future and ensure we have an approach which allows flexibility to future challenges.

Precious resource / Ensuring we have sufficient water resources / Abstractions and low flows

About 70 per cent of our water comes from rivers and the remaining 30 per cent from groundwater sources.

The removal of this water, a process known as abstraction, is regulated by the Environment Agency through its abstraction licensing process. In 2011/12, we achieved 99.93 per cent compliance with our daily licences and 100 per cent with our annual licences.

to give an overall score for customer service.

Abstracting water in some areas can contribute to low flows in rivers which can be ecologically damaging. During 2011/12 we continued to work with the Environment Agency on the Restoring Sustainable Abstraction Programme which involves investigations to identify those sources with significant potential to cause harm and agree mitigation options, including limiting abstraction, changing abstraction regimes and river restoration to alleviate the impact on local ecology.

Low flow investigations

We are undertaking investigations at four key groundwater sites where it is thought abstractions may be causing problems under low flow conditions. We are also investigating the impact of our abstractions from the lower Thames to determine whether they are having an adverse impact on the lower freshwater Thames and the tidal estuary of the River Thames in London. These investigations are due to be completed in January 2013.

We are also undertaking appraisals to determine the best course of action in five cases where our abstractions have been identified as having the potential to have an adverse impact on the environment. These options appraisals are due to be completed by the end of January 2013 or earlier. If the options appraisals show a reduction in abstraction is required we will include such measures in future plans.

Precious resource/ Ensuring we have sufficient water resources / New resources

We are exploring a wide range of options to provide additional resource including innovative solutions such as reusing treated wastewater, desalinisation of saline and brackish water, transfer of water between companies and regions and more traditional solutions such as new reservoirs.

We are also working with other companies in the South East of England to ensure there is integrated water resource planning at a regional level.

Precious resource / Reducing leakage

Reducing leakage remains a key priority for the business. Over the last 10 years we have completed a large scale programme of mains replacement but a significant proportion of our distribution network remains in relatively poor condition.

We proposed to reduce leakage in our Water Resources Management Plan, Ofwat determined that we should maintain leakage at roughly current levels for the period 2010/11 to 2014/15, with an annual target of 673 million litres a day and undertake further work to build the evidence case for a wider programme.

In 2011/12, we achieved a leakage level of 637 million litres a day. This is a reduction of 28 million litres per day compared to 2010/11. We beat our target by 36 million litres per day – enough to supply more than 220,000 people. This is the sixth year running we have hit our leakage target and over this period we have reduced levels by around a quarter. This year's performance reflects both extra leakage control activity on top of that originally planned and more favourable weather conditions than the extreme winter of 2010/11 when extreme cold caused our old cast iron pipes to contract and break.

To maintain leakage at current levels still requires high levels of ongoing leakage control activity. Our water distribution network continues to deteriorate each year, this is visible to our customers and community when they see burst water mains.

In order to reduce leakage we need to continue to replace pipes which is often expensive and we need to test whether our customers are willing to pay for further replacement programmes.

We need to work in partnership – Thames Water, local authorities and also customers. We rely on our customers to report leaks to us. If we were not to detect and repair leaks on our mains network we estimate that leakage would double in a year.

Leak detection

During 2011/12 we worked hard to detect and repair underground leaks and visible leaks quickly. We completed over 42,000 repairs on our network and a further 13,000 repairs were completed on our customers' pipework. This is the equivalent to one repair every nine minutes, 24 hours a day, 365 days a year. We also continued work to replace ageing mains, including more than 200km of pipes in London, Reading, Slough and Swindon, targeting those that leak and burst the most.

This not only helps reduce leakage but also future disruption and inconvenience to our customers. We have also introduced new schemes to improve pressures throughout our water network ensuring fluctuations and excessive pressures are minimised.

Customer communications



We urge our customers to report a leak to us as the sooner we can fix it, the more water we can save. Customers can call our free Leakline on 0800 714614 or tweet us @thameswater using the #tweetaleak hash tag.

In the run up to winter, we urge our customers to get their pipes ready for the cold months to prevent freeze-related bursts in their homes. In support of the national Get Ready for Winter campaign, backed by the Cabinet Office, water industry and government departments including Defra (Department of Health, and Department for Transport), we posted a series of cold weather tips and short films on our website advising customers of simple ways to protect their homes.



Precious resource / Promoting metering

A meter provides information on how much water is used and allows us to bill customers for actual usage.

We consider this to be the fairest way to pay for water. Metering also provides us with detailed information on water use to help provide a more efficient and effective service. We consider that metering is an essential tool to achieve sustainable management of water and is a key part of our long-term resources strategy.

Around 34 per cent of our domestic customers currently have water meters and our aspiration is to achieve around 80 per cent metering by 2025. Meters are fitted in all new homes, businesses and properties with swimming pools or sprinklers. We also promote meters to customers who we think will financially benefit and following approval of our Water Resources Management Plan, we will start a compulsory metering programme this year.

Metering may raise affordability issues for some households. We have set out a number of measures to protect vulnerable customers including a WaterSure tariff where bills are capped at the level of the average bill for metered customers which have a need to use higher than normal volumes of water; Water Direct and Payment Plans to make budgeting easier for lower-income customers and the Thames Water Trust Fund, a charitable trust established to help disadvantaged customers. We are also piloting a project with Citizens Advice and GLA to support some of our vulnerable customers.

We are undertaking a trial of 'Smart' meters on all connections to our mains in six areas providing real time metering data. This trial provides us with an understanding of the costs and benefits of metering for the customer and the business and will provide the evidence for our future strategy.

Precious resource / Using water wisely

Water efficiency is an essential part of our long-term sustainable management of water.

We have an established programme to promote effective use of water to our customers and to raise awareness of the importance of saving water both at home and in the workplace. We continued to encourage our customers to use water wisely – during 2011/12 this resulted in a saving of around 6 million litres a day, surpassing our target by over 1.6 million litres per.

We provide advice on water efficiency and offer free water-saving products to encourage our customers to use water efficiently. Key activities include the distribution of leaflets and devices and the on-going development of web materials, including 'Waterwisely', a calculator which can help people quantify their water use. Visitors are directed to water-saving tips specific to their circumstances and can find out the most suitable products for them.

We also support and participate in community and business events, including London Re:New, a Greater London Authority project which aims to save energy and water in homes across London. We want to develop creative approaches to try to ensure interest does not wane, such as creating the four minute shower challenge which encourages our employees and customers to sing shorter songs while washing.

Throughout 2011/12, we have continued to work on the 'Save Water Swindon' in partnership with WWF and Waterwise. This innovative project aims to challenge residents of Swindon to reduce their daily water use by linking their use to low levels in the River Kennet. It is the UK's first single-town campaign to encourage people to use less water. We are also testing different approaches and methods to further our understanding in this area. A sister project in Marlborough is planned.

Community engagement plays a key part in saving water and achieving long-term behaviour change which is why we continue to support external environmental and community events. Volunteer staff who took part in our speaker programme gave talks to schools and community groups, engaging more than 2,000 of our customers and local community groups on issues including water conservation.

Helping household customers

We continue to offer advice, tips and free water-saving products to our household customers. In 2011/12 we received over 30,000 orders for products and over 20,000 customers used our Waterwisely calculator, to find out about their water use. We supported partnership projects such as the London Re:new scheme in partnership with the Greater London Authority, designed to make it easier for all householders to improve energy efficiency. We helped deliver water-saving products and advice to over 16,000 homes alongside this energy efficiency work.

Working with businesses

Our Water Regulations team visit businesses to help them reduce their water consumption. Over 1,500 of these audits resulted in savings of approximately one million litres per day. Businesses are offered free save-a-flush devices and are given our 'Steps to sustainable water use' information pack which contains information to help calculate how much water they use, identify and fix leaks and go on to reduce water usage

Precious resource / Using water wisely / Water efficiency campaigns

Throughout 2011/12, we continued to work on a number of campaigns to encourage our customers and community to raise awareness of the importance of saving water- this included Save Water Swindon, the UK's first single-town campaign to encourage people to use less water.

Save Water Swindon

We are working to reduce water use in Swindon by one million litres per day by 2014. We have encouraged each household to cut its daily usage offering free water saving equipment and advice. We have also helped non-domestic customers including businesses and public sector bodies to reduce water use.

In November 2011, we began a project aimed at helping schools save water, to which 14 have so far signed up. We have found that the participating schools' water wastage was costing them an average of £1,500 per year.

Thames Water is working with Swindon Borough Council on a plan to install water meters at its buildings that can be read remotely helping better understand water usage.

We have also worked with local businesses to trial online training packages, provided by the Waste Resources Action Programme, promoting the wise use of water.

Our work on the Save Water Swindon (SWS) initiative has given us new insights into customer awareness of water efficiency and these findings have led to improvements in the way we communicate our messages. In 2011, we carried out a national survey of 1,800 people which found Swindon is a particularly 'water conscious' UK town. A staggering 100 per cent of respondents from Swindon said they would feel guilty about wasting water, while 100 per cent also said they consciously try to save water in the home, compared to 82 per cent nationally.

We are continuing to encourage customers to keep up their water-saving ways and are trialling new ways of providing information so customers can take control of their own water usage.

Primary schools resources

We will continue to provide resources to support water efficiency education in schools. We develop innovative materials including our Splash trumps card game. The cards feature characters from our online Waterwisely family and each represents points for activities which use less water to help pupils think about water. Working with Children's Radio UK we are also developing fun audio material to encourage them to save water and understand the water cycle.

Protect the Pang

During 2011/12 Thames Water and the Angling Trust launched a new approach to encouraging people to use water wisely, 'Protect the Pang' was one of seven campaigns, all tributaries to the River Thames, linking water use with the impact on a local river.

This was the UK's first set of awareness campaigns urging a community to use water wisely to help protect their river, which will have a positive impact on future supply. We either abstract water directly or from underground aquifers that feed these rivers. The impacts of a dry year, are often more obvious on these smaller rivers than on the River Thames.

Mark Lloyd, Chief Executive of the Angling Trust, said:

"Low flows in rivers are bad for fish and a host of other wildlife. A lack of flow concentrates pollutants, increases temperatures, decreases oxygen levels, clogs up gravels with silt and reduces the available habitat for invertebrates and fish... The good news is that it's easy for millions of people to make some small changes which will make a big difference. We hope that people will do their bit, and leave as much water as possible where it belongs – in our wonderful rivers."



Putting our customers first

We want to ensure that 'If customers had a choice, they would choose Thames Water'.

We aspire to achieve this vision by providing a level of service at which customers trust us, find us easy to do business with and recognise that we really care. Customer inclusion - access to services, fair charging systems and active engagement - is a key theme in our Sustainability Strategy.

Our commitment to delivering excellent service puts customers at the heart of everything we do. We aim to respond positively to individual needs, communicate in a way that allows customers to keep control of their own affairs and make sure they can easily access our services. We also offer a range of free services for customers who require additional assistance.

During 2011/12, we issued around 10.5 million bills and notices, as well as handling just under 3.3m enquiries about bills and payments. At £318 per year, our combined average water and sewerage bill is still one of the lowest in the country.

However, some of our customers experience difficulty in paying their bill and during 2011/12 our Customer Assistance fund helped over 3,000 of them. Almost 5,000 customers also benefited from their meter bill being capped through the WaterSure scheme, up over 20 per cent on the previous year.

Putting our customers first / Customer service

Our role is to make sure customers receive top-quality drinking water, day and night, as well as safely treating and returning wastewater to the environment. We set ourselves high standards and want to deliver excellent customer service.

We also understand that we may not always get it right, and actively seek feedback from our customers.

Customer Service Strategy

Our new Customer Service Director Natalie Beckerman was appointed in 2011 and has brought with her a wealth of knowledge and experience of delivering a first-class service for customers at several leading organisations. Under her guidance, we have used customer feedback to build on our customer service strategy.

We will aim to:

- Do the right thing for our customers
- Deliver the basics excellently and get it right first time
- Invest to reduce unnecessary contacts when things go wrong or as a result of work we do

- Invest in our people to build a strong customer service culture

The five key pillars that make up our plan are to:

- Scrutinise and revise our end-to-end policies and processes
- Identify and tackle root causes of complaints
- Engage and train our people and contractors to embed the behaviours our customers expect
- Develop customer channels and strategic systems
- Use customer demand to inform Asset Investment

Putting our customers first / Customer service / Measuring our service

During 2011/12 our regulator Ofwat carried out a number of surveys to measure customer satisfaction.

Ofwat analysed the number of telephone contacts, abandoned calls and written complaints we received. This was combined with the customer satisfaction measure to give an overall score for customer service.

This analysis of customer service is known as the Service Incentive Mechanism (SIM) and our score was 62.61 points out of 100, slightly lower than 2010/11. Of this score, 12.58 per cent was due to an increase in the number of written complaints about sewer blockages, leakage from our pipes and new water connections. A total of 34,466 written complaints were received overall.

Some of the increase in complaints about sewer blockages can be explained by our adoption of private sewers in October 2011, but our customers also wanted us to resolve problems quicker keep them better informed and ensure we keep promises.

Issues with our new IT system implemented during 2011/12, coinciding with the cold weather at the end of January, meant it took us longer to deal with customers' queries, and some experienced difficulty in contacting us on the phone.

Our plans for next year to reduce complaints and increase customer satisfaction include further improvements to our website and the introduction of SMS for those who want to be updated and kept informed using this channel.

We will also be introducing a new, easy-to-understand bill late autumn, completing a review of our water, waste and metering customer journeys and investing in staff training to deliver the best possible customer service and experience.

Putting our customers first/ Customer service / Customer feedback and communications initiatives

Customers can now provide instant feedback via their mobile phone after we have provided them with a service. This initiative allows customers to let us know what they think about us first hand.

We not only use this direct feedback to improve our services generally, but also to resolve any individual customer issues or concerns quickly. After we have received a customer request, we send them a text message confirming receipt, what we will do for them and when. These initiatives enable customers to trust us, know that we are easy to do business with and that we really care.

Putting our customers first / Customer Service / Improving our service

Making it easier to find information

We want our customers to find our website helpful, friendly and reassuring, and have achieved this through a new, vibrant and creative design. The 2011/12 improved features include:

- Thames Water LIVE shows real-time information on repairs, leaks and planned investment across our area
- A series of video guides which cover common customer enquiries
- A tool which allows customers to find answers to queries more easily through the use of specific questions and answers
- A new section that makes it easier for customers to get the right contact detail for their enquiry
- An interactive water-usage calculator to encourage reduced waste
- An online facility for customers to report a leak
- Water is an extremely precious resource. In 2011/12 we created an interactive guide to the water cycle to help our customers understand where their water comes from and discover what happens to wastewater.

Customers can also explore our interactive town, Waterwisely, to find out how much water they use and could save at home.

Making it easier for customers to contact us

We have made improvements to our telephony system, making it easier for our customers to contact us and provided a call back facility for those who do not want to wait. Following feedback from customers we have also simplified the options on our self service facilities and now give customers longer to enter data.

A consistent approach

During 2011/12 we have worked with specialists to help improve our employees' customer service skills.

To improve our ability to respond to customer demand, following negotiations with our Trade Unions, we have changed the working patterns of our field teams.

We also held employee engagement sessions across the company to communicate the improvements in customer service needed and to develop improvement plans.

Putting things right if they go wrong

Whether it is one home disrupted or hundreds, it is important we keep our customers informed and look out for our vulnerable customers. As a result, during 2011/12 we set up a 'Customer Response Team'. This team is made up of employees, outside of our operational team, who are willing to lend a hand at operational events to ensure we meet our customers' needs and improve their experience.

Customer communications

Online:

Our online services give our customers the flexibility to get in touch with us at a time that is convenient for them. During 2011/12, 71,000 customers opted to receive their bills online, and in the period from April 2011 to March 2012 some 13,800 customers registered for this service.

Using social media:

To help customers keep up to date, we use social networking sites Facebook and Twitter. Customers are also able to watch our latest films and appearances on YouTube. Customers can report leaks, account-related problems and address other queries to us through Twitter. We also use Twitter to keep them informed of any network incidents. During 2011/12, we sent 4,200 tweets and received 8,200 mentions – up 144 per cent on the previous year.

Written:

Our 'welcome pack' for customers who move house into or within our area provides a wide range of helpful information. The booklet covers the services we provide, benefits of water metering, tips on how to use water wisely and details of the assistance we can give to customers who are experiencing financial difficulties.

As in previous years, we also updated the leaflet we issue with our bills, summarising our main services, investment plans and contact details.

Putting our customers first / Extra care services

We try to treat each customer as an individual by being as flexible and helpful as we can.

We offer a range of free services for customers who require additional assistance. These services are designed to help customers who have sight or hearing problems, mobility concerns, or other specific needs.

We provide extra support to customers with special needs and have continued to actively promote these services through third parties such as the Citizens Advice Bureau, as well as local and national support and advice groups. These services include communications in large print, braille and audio format, additional help in the event of a water supply interruption and a doorstep password scheme if we ever need to visit a customer's home.

As at 31 March 2012, 50,931 customer households were on our Special Assistance Register and receive one or more additional services at no extra charge. This is an increase of 17.75 per cent on the year before, representing an additional 7,681 individual households.

Putting our customers first / Extra care services / Further support

We work with community police officers, Neighbourhood Watch schemes and Victim Support to publicise our Doorstep Password Scheme, which combats the problem of bogus callers.

We attend twice-yearly meetings with Water UK, other water companies, the Home Office, the Association of Chief Police Officers and voluntary groups to discuss initiatives to minimise distraction burglary incidents.

We continue to operate a 24-hour telephone service that provides an interpreter in any language required. Approximately 60 customers per month use this service.



Putting our customers first / Affordability

For all our customers, water charges are good value for money and for most represent a very small proportion of household income. However, for customers experiencing financial difficulties we provide financial assistance where possible.

Customer assistance and trust funds

The Customer Assistance Fund is able to help those who genuinely cannot pay their bills. It is administered through an external partner who assesses a customers' income and expenditure and confirms whether a grant can be given towards arrears or current charges. In 2011/12, 5,915 customers contacted the Customer Assistance Fund, with 3,232 receiving grants totalling £1.78m – representing an average grant of £515.

In addition, the independent Thames Water Trust Fund, run by its own trustees received a donation of £254,000. This provided the funding for exceptional hardship cases – individuals or families whose circumstances could be transformed by a relatively small value item, for example a washing machine. Generally these cases were referred to the trustees from the Customer Assistance Fund. Nine organisations have also received grants from the Trust Fund, these are mainly money advice organisations such as Citizens Advice, but they also include outreach projects.

WaterSure

Our WaterSure Scheme helps households with a metered water supply who receive specific means-tested benefits and either have a large family of three or more children for who they receive child benefit, or someone in the household has a verifiable medical condition requiring the use of extra water.

During 2011/12, 4,938 of our customers benefited from this scheme, with an increase of 23.4 per cent in the number of applications received since the previous year.

Information on both the Customer Assistance Fund and WaterSure can be found on our website, in our Customer Code of Practice and How to get help if you can't pay your bill leaflet, as well as in our 'welcome pack' we issue to customers who move into or within our region and our 'Keeping you informed booklet', sent to all customers once a year.

Social tariffs

Section 44 of the Flood and Water Management Act 2010 and associated guidance issued by Defra now enables companies to offer reduced charges for individuals who would have difficulty paying in full.

We have long been an advocate of social tariffs and propose to engage with our customers and customer representatives to understand whether they are supportive of the introduction of a social tariff in the Thames Water area.



Sustainable drainage

Under section 94 of the Water Industry Act 1991 we have a duty to “effectively drain” the area we serve. We work hard to ensure that the risk of service failures such as pollution incidents and flooding from sewers is reduced as far as possible. However, our operations slightly differently depending on whether we have a combined sewer system, or whether separate foul water and surface water sewers exist.

In the heavily urbanised parts of London, our combined sewer system not only carries waste from homes, offices and other buildings, but also has to cope with surface water from all the hard standing surfaces in the area such as roads, roofs and car parks. When the system is full, it is designed to overflow into watercourses, carrying raw sewage and waste products disposed of down the toilet into our rivers endangering the wildlife and habitats. The proposed Lee and Thames Tideway Tunnels will significantly reduce the volume of raw sewage overflowing into the River Lee and the River Thames.

It is crucial that we understand the capacity of the sewer system and can plan to avoid future problems. These assets were inherited from various councils, the records are inconsistent and we don't yet have this perfect knowledge. However, we have been steadily building models that can predict the impact of additional loads from population growth and the impacts of climate change.

Our work has also shown that a lot of green space has been lost through urbanisation. This means that more surface water runs off over land into our sewers when it rains heavily, rather than soaking into the ground. Therefore, we working with our customers, to help them to reduce the volume of water returned to the sewer by introducing more sustainable drainage practices in their homes and businesses. These aim to replicate the natural drainage from a site as closely as possible, using a range of techniques, such as soakaways, permeable paving, green roofs, and balancing ponds, to control the flows at source. We also work to influence local planning authorities to change local practices e.g. some councils no longer allow front gardens to be paved over.

Despite the benefit of separate sewer systems, pollution incidents occur because of a misconnection of foul sewage to a surface water sewer that drains directly to a watercourse.

We focus our efforts on known problem areas by reference to actual pollution incidents and known flooding problems, but also make sure that we apply the learning from every incident where we can change our operational procedures to reduce the risk.

We also work with local authorities and the Environment Agency to develop local flood risk management plans. The inundation of large parts of London during the July 2007 event exposed the risk from significant storms when 57 treatment plants, 109 pumping stations and our customer contact centre were affected. As a result we have carried out immediate changes to our design standards (e.g. raising electrical control

panels so they are out of reach of flood water) and are planning the investment needed for flood protection given climate change scenarios.

Sustainable drainage / Sewer flooding

Urbanisation, climate change, population growth and modern lifestyles are putting our sewerage network under increasing pressure.

The system is largely in good condition, but after heavy rainfall many networks handle much larger volumes of water than they were built for. We also have to clear blockages – often caused by cooking fat down the kitchen sink and things flushed down toilets that shouldn't be. This can lead to sewage escaping from manholes and polluting the environment. In severe cases, it can flood homes.

During the year, there were 147 cases of flooding to homes and external areas caused by overloaded sewers, down from 277 in 2010/11. Six cases were caused by severe weather, compared with four incidents in 2010/11. A total of 964 properties were flooded internally as a result of a sewer blockage, collapse or equipment failure, up from 843.

There is no single solution to ease network pressures, and individual circumstances require different approaches. Historically, we've addressed the challenge through engineering schemes that provide extra capacity, but the level of pressure on our sewers and the development of new techniques are leading to an evolution and greater diversity in our approach.

We always look for ways to reduce sewerage network demands by tackling the problem at source.

Sustainable drainage / Sewer flooding / Reducing the risk

We continue to carry out engineering work to reduce the risk of sewer flooding and plan to spend £350m between 2010 and 2015 to protect properties. This year we delivered nine schemes across our region, including a sustainable drainage project near Harlow.

In 2011/12, we alleviated the flooding risk to 83 homes and externally flooded areas.

A significant cause of sewer flooding is insufficient capacity. During 2011/12, lower than average rainfall resulted in fewer reports of flooding from overloaded sewers than in previous years, but our work to reduce this problem continued.

This included the development of plans to tackle a large-scale problem in the boroughs of Hammersmith & Fulham and Kensington & Chelsea where we aim to install more sustainable urban drainage solutions (SuDS). SuDS slow down the rate at which surface water enters sewers and reduces the risk of flooding. Used correctly, they have the potential to supplement traditional engineering solutions and ease the pressure on our sewerage network.

We installed more than 400 small, self-contained pumping units to suitable households. These work by pumping sewage and rainwater from private drains in the property to the main sewer outside, and contain a non-return valve that prevents sewage entering the property.

The number of properties on our 'high risk' register, those likely to flood internally due to overloaded sewers, was 1,529 at the end of the year. This was less than 2010/11 due to the impact of our capital programme and lower than average rainfall. We also carried out flood relief work to resolve the cause of internal flooding at 61 properties.

Our focus for 2012/13 will be to continue to reduce the number of properties at the highest risk of sewer flooding. We will also finalise plans for a long-term sewer flooding solution in Hammersmith & Fulham and Kensington & Chelsea and submit a report to our regulator Ofwat showing the relative costs and benefits of the proposed programme.

Sustainable drainage / Sewer flooding / Blockages or collapse

Over the past year, we recorded an increased number of 56,104 sewer blockages- often caused by items such as nappies wrongly flushed in sewers. But it is fat, oil and grease deposits which cause more than half the blockages in the area.

Blockages pose a risk of sewer flooding and can lead to incidents of pollution and to reduce them we are developing new techniques to tackle problem areas. Trials in a number of locations have reduced repeat blockages by as much as 40 per cent.

Our pollution prevention programme aims to raise awareness about the potential consequences of disposing of fat and oil to the network while our 'Bin it – don't block it' campaign aims to stop customers disposing of fat and other unsuitable material down the kitchen sink. It won three PR awards during 2011/12.

Maxine Clement, Environment Agency Planning Manager, said:

"We fully support Thames Water's 'Bin it – don't block it' campaign. When sewers become blocked, sewage can overflow into rivers and streams causing pollution which can kill fish and wildlife. We work closely with Thames Water to reduce pollution and ask everyone to follow their advice – do not dispose of fat or sanitary items down your sink or toilet. If you do, they can end up harming the environment. Please help to reduce the problem of blocked sewers."



We also worked with council environmental health departments to get their backing in targeting campaigns to specific hotspots. We chair the WaterUK Sewerage Network Abuse Prevention (SNAP) group, which represents the national water and sewerage sector, and aims to prevent incorrect usage of public sewers. Reducing the number of flooding incidents caused by blockages will continue to be a key focus this year.

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Sustainable drainage / Pollution incidents

We operate and maintain a huge sewerage network comprising over 68,000km of sewers, more than 2,500 pumping stations and 349 sewage treatment works.

The size of this network combined with the age of some of the infrastructure, the unpredictable nature of weather and the difficulty of controlling unlawful discharges to sewers means that preventing pollution from our sewer network is a major challenge. We recognise that the environmental damage and impact on our community caused by spillages from our network is unacceptable and work hard to prevent them.

The Environment Agency categorises pollution incidents on a scale from one (the most serious) to four (no significant environmental impact). During 2011:

For our wastewater service, there were 20 incidents recorded as Category 1 or 2 and 239 as Category 3. For our water service 1 Category 2 incident and 9 Category 3 incidents were recorded. This gave 269 pollution incidents in total.

All pollution incidents are regrettable and we are working hard to improve our performance.

The most severe of these incidents occurred in October 2011 and affected the River Crane, after a six-tonne sluice gate jammed shut following maintenance work on one of our major sewers running to Mogden Sewage Works in west London. Regrettably this resulted in raw sewage being discharged into the River Crane. We have since agreed a long-term action plan with representatives of organisations including the Environment Agency, the London Wildlife Trust and the Crane Valley Partnership to restore the quality of the river and prevent this from happening again and confirmed a fund of £400,000 in support of this.

Also during October, a pollution incident occurred where used cooking oil polluted a small lake in Elstree, Hertfordshire killing the entire fish stock. Thames Water traced the source back to a domestic customer who was converting used cooking oil into bio-diesel in his garage. The waste product from this process was poured down the rainwater manhole which flowed into the lake.

We continue to work hard to raise our customers' awareness of the impact this behaviour can have on our environment. During 2011/12, we were convicted on 22 charges for 6 separate incidents, with fines totalling £281,780.

Sustainable drainage / Pollution incidents / Pollution prevention

The most common cause of failure in our network is when sewers become blocked. This is often a result of households and restaurants tipping fat and grease down the sink.



The blockages can result in sewage overflowing from manholes. We continue to look to raise awareness of this problem among customers in an attempt to reduce the number of blockages.

Our Blockage Hot Spots project aims to resolve service and structural issues in those areas where we experience the most frequent blockages. The continued development of alarm management processes and trialling sensors which monitor the level of wastewater within sewers. There has also been an increased focus on contractor education and competency training for operators.

Sustainable drainage / Pollution incidents / Misconnected drains

Across most of London, we have what is known as a combined sewer system. In many other parts of our region, domestic and industrial waste is conveyed to our sewerage works through one system of pipes, while separate surface water sewers carry away untreated rainwater to a local watercourse.

Pollution can occur when household drains, connected to washing machines, dishwashers and basins, are wrongly connected to the surface water drain, instead of the foul water system.

We work jointly with the Environment Agency (EA) to combat the issue of misconnected drains. The EA firstly identifies the affected 'outfalls', where pollution from these misconnections is entering local rivers and streams. We trace back the pollution and identify the properties causing the problem, then liaise closely with the customers concerned, the relevant local authorities and the EA, to ensure appropriate measures are put in place to rectify this.

During 2011/12 we significantly improved the water quality of 48 unsatisfactory outfalls. To improve the water quality from these surface water outfalls, 1,439 misconnected appliances from 744 properties were identified and rectified, with the catchments surveyed contained over 17,000 properties. The misconnected appliances resolved included 360 washing machines, 278 kitchen sinks and 44 toilets.

Industry activity

The National Misconnections Strategy Group is based on a Thames Water model, Connect Right, in which we have worked with the Environment Agency and other key stakeholders to tackle the issue of misconnections. We continue to lobby the Government to consider giving water companies powers to rectify plumbing errors as described in the Flood and Water Management Act. We have also set up an Approved Plumber Scheme in association with Kingston College. This Water Regulations course is designed for plumbers and heating installers.



Sustainable drainage / Sustainable urban drainage system

In urban, built-up areas there is less green space available to absorb rainfall and therefore more flow entering our sewers.

It is not sustainable to keep increasing sewer capacity to meet demand. An alternative approach called 'Sustainable Urban Drainage Systems' (SuDS) uses a range of measures to reduce the rainfall that enters sewers.

We are carrying out a series of pilot SuDS trials and measuring their impact on flows into sewers, such as the Counter's Creek initiative. As well as testing their effectiveness, the trials will also identify the challenges involved in delivering SuDS and the attitudes of the public and other stakeholders towards them. Because the SuDS will be highly visible at properties, the support of our customers is essential to the project. The community will be involved in all stages of the design and selection of the systems installed.

Thames Water is also working in partnership with the Wildfowl & Wetlands Trust (WWT) and the Environment Agency to build SuDS in school grounds within the Pymmes Brook catchment area. This pilot initiative will demonstrate how SuDS can mimic natural processes by catching and slowing the flow of rainwater to streams and rivers, filtering it of pollution and improve the health of the river. It will also provide schools with related learning opportunities and enable children to play an active role in the stewardship of their environment.

We expect SuDs will prove beneficial for improvement of the quality of surface water run off, biodiversity and local amenity, and seek the opportunity to further review how effective they are for environmental improvement as well as reduced flooding.



Sustainable drainage / Sewage treatment, management and compliance

Each of our 350 sewage treatment works is set a 'consent' by the Environment Agency, defining the quality of treated effluent it discharges to a local river or stream.

The treated sewage often forms a major proportion of the volume in the watercourse, supporting flows in the river during dry periods. This means that its quality is critical for ensuring the health of the river. We maintained a high standard during 2011/12, reaching 100 per cent compliance against look up table requirements.

In line with our plans, we improved the quality of effluent at five works, including Aylesbury, Deephams and Bishop Stortford. We also upgraded six works where we needed to make changes to continue recycling treated sewage sludge (the solid residue left by the treatment process) to farm land.

New legislation will limit when we can apply liquid sludge to fields, in order to minimise nitrate run-off into rivers and underground sources. We therefore installed dewatering equipment at works including Bracknell, Camberley and Chertsey, so we can produce a drier material we can recycle all year round.

We increased the capacity at five works in areas where the population is growing, including Basingstoke, Crawley and Deephams. Together, these can now treat wastewater from more than an additional 61,000 customers to provide the necessary capacity for new housing developments over the coming years.

We aim to be a good neighbour and minimise any issues experienced due to odour at our treatment works. During the year, we completed improvements at Cranleigh and Hogsmill in Kingston.

We have a robust risk management process and comprehensive surveillance programme which includes sampling and monitoring. This means we can detect and deal with emerging issues at an early stage.



Sustainable drainage / Adoption of private sewers

On 1 October 2011, around 40,000 kilometres of privately owned sewers became Thames Water's responsibility.

The transfer has been an operational challenge greatly increasing the maintenance work we need to carry out, but we welcomed the Government's decision on sewer ownership as it has brought clarity and peace of mind for our customers.

Environment Minister Richard Benyon said:

"The transfer will stop the financial threat of customers being hit with huge repair bills for sewers that sometimes aren't even on their property. It's a much fairer and simpler approach which will also improve the overall quality of the network to reduce the chance of problems in the first place."

Pamela Taylor, Chief Executive Water UK, said:

"The transfer promises to bring peace of mind to customers across England and Wales. For the water companies, the transfer is a major change as they will be taking on responsibility for many thousands of miles of pipes, some of which may be in poor condition. There could well be a backlog of maintenance, repair and renewal to tackle."

During the period 1 October 2011 to 31 March 2012, there were 14,946 sewer blockages, 211 sewer collapses and 124 properties flooded internally as a result of performance issues on the adopted sewers. This was less than anticipated.

Sustainable drainage / London tideway improvements

Much of London's sewer system is combined, meaning it transports both rainwater and foul sewage.

When it was built in the mid-19th century, overflow points were installed to allow wastewater to spill into the River Lee and Thames if parts of the system filled to capacity. This now happens far more frequently, overflows can occur after as little as two millimetres of rainfall.

During 2011/12 we started work on the £635 million Lee Tunnel. This new sewer will intercept sewage from the largest overflow point, at Abbey Mills Pumping Station, in east London and transfer it to Beckton Sewage Works for treatment. Tunnelling work began in 2012 and is due to finish by 2015.

We are preparing a Development Consent Order (DCO) for the Thames Tunnel, a 22-mile sewer which will follow the route of the Thames from west to east. We plan to submit the DCO within the next financial year. This will capture untreated flows from 34 of the most polluting overflows, for treatment and safe discharge to the River Thames.