



2018

**South West Water**  
Annual Performance Report  
and Regulatory Reporting

## Our purpose

Bringing resources to life.

Our vision is to lead the water industry. We strive to live up to our values consistently with integrity and transparency.



### Trusted

Trusted by our customers and stakeholders to deliver the services that households and businesses depend on in a fair, responsible and sustainable way.



### Collaborative

Working collaboratively with customers, regional organisations and agencies, suppliers and other stakeholders to identify and implement new and improved ways of working.



### Responsible

Responsible leadership, governance and decision-making processes that support the delivery of high quality services which bring positive social, economic and environmental benefits to the regions we serve.



### Progressive

To continually improve services we support a culture of innovation, utilising new technologies where appropriate in order to better meet our customers' needs and priorities.

## Who we are

South West Water provides drinking water and wastewater services in Cornwall, Devon and parts of Somerset and Dorset.

Since 2016 it has also been providing drinking water services in the Bournemouth Water region.

This Annual Performance Report and Regulatory Reporting details our 2017/18 performance against the performance commitments set for the 2015-20 regulatory reporting period.

Separate commitments have been maintained in each operating area, and analysis is provided for each area within this report.

## Summary

Are you a customer? We will produce a Summary Performance Report for each area that ensures you get the most important details from this document up front.

Published at the end of July 2018 at: [www.southwestwater.co.uk/report2018](http://www.southwestwater.co.uk/report2018)



# Welcome to South West Water

## Our business outcomes

South West Water's 2015–20 Business Plan is based around eight 'outcomes' which are reflective of customer and other stakeholder preferences with regard to levels of investment and performance as well as compliance with our legislative obligations.



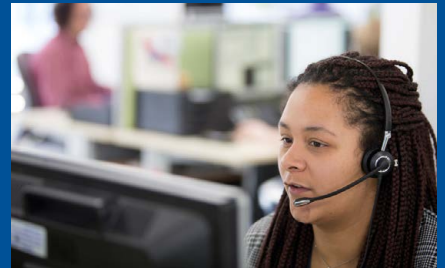
**Clean, safe and reliable drinking water**

See pages 10 to 13 →



**Available and sufficient resources**

See pages 14 to 15 →



**Responsive to customers**

See pages 16 to 17 →



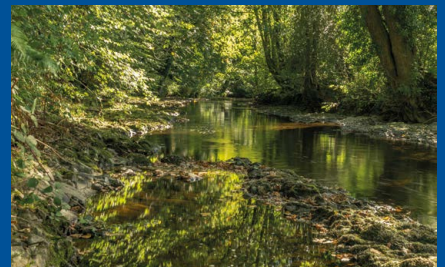
**Resilience**

See pages 18 to 19 →



**Reliable wastewater services**

See pages 20 to 21 →



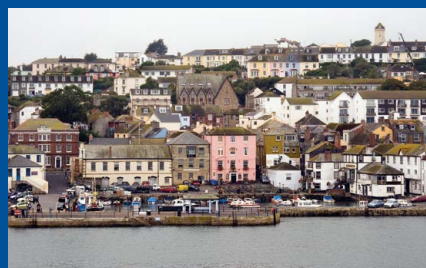
**Protecting the environment**

See pages 22 to 25 →



**Benefiting the community**

See pages 26 to 29 →

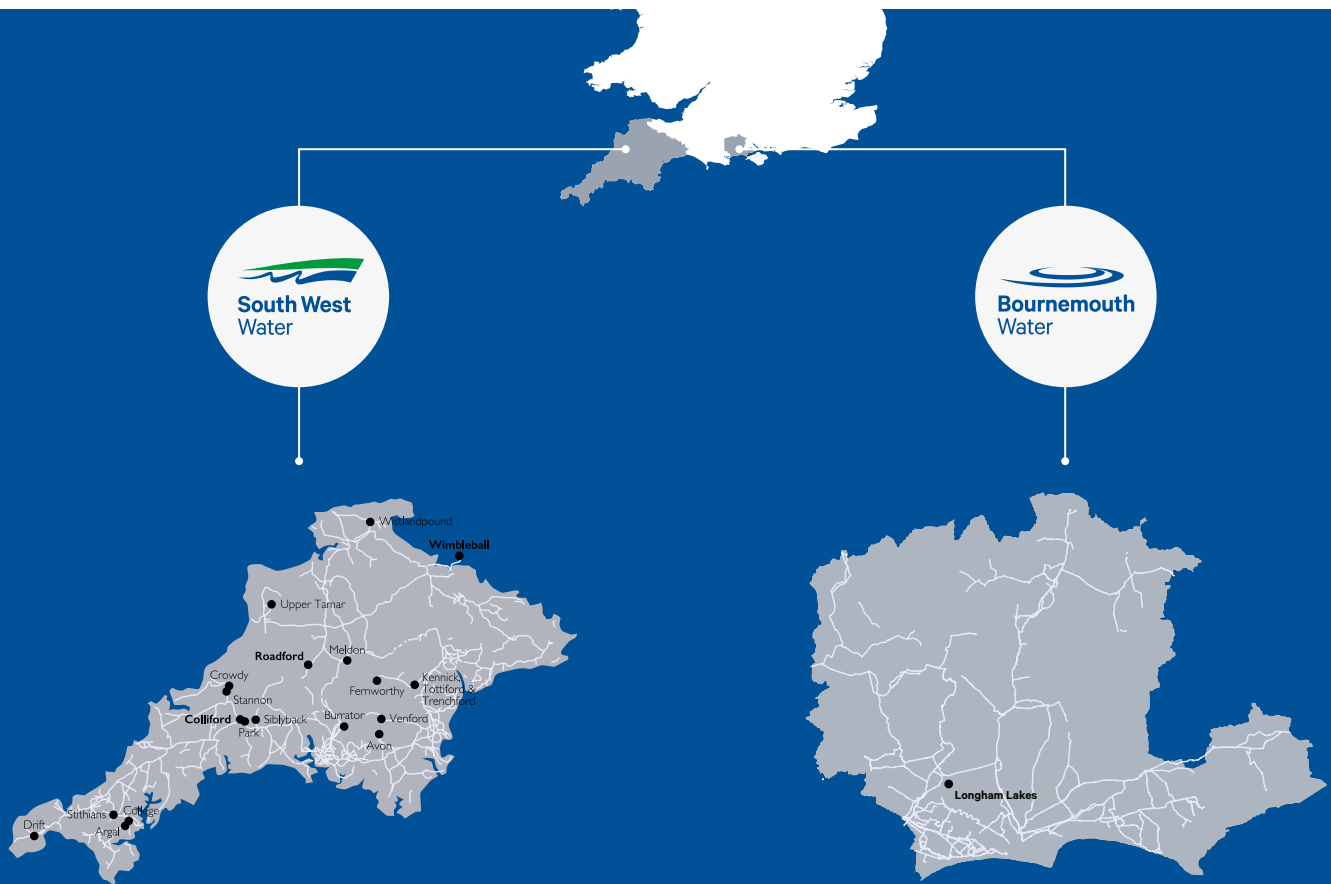


**Fair charging for all**

See pages 30 to 31 →

We have set stretching performance commitments against each of these eight outcomes which are subject to significant Board, customer and other stakeholder scrutiny. Progress against these commitments has been summarised in each section respectively.

## About us



We provide water and wastewater services to South West Water customers in Cornwall, Devon and parts of Dorset and Somerset.

**15,401km**

of water mains

**17,439km**

of wastewater network

**1.7m**

residents

**680**

treatment works

We provide water services to Bournemouth Water customers in parts of Dorset, Hampshire and Wiltshire.

**2,832km**

of water mains

**0.5m**

residents

**5**

treatment works

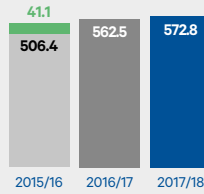
## Financial highlights

## Contents

Revenue<sup>1</sup> (£m)

**£572.8m**

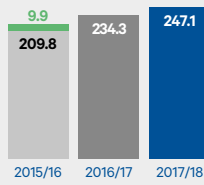
2016/17: £562.5m



Operating profit<sup>1</sup> (£m)

**£247.1m**

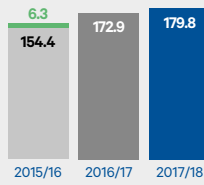
2016/17: £234.3m



Profit before tax<sup>1</sup> (£m)

**£179.8m**

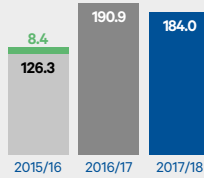
2016/17: £172.9m



Capital additions<sup>1</sup> (£m)

**£184.0m**

2016/17: £190.9m



Financial results reflect combined performance across all areas of supply.

(1) Reflects total statutory performance.

- 2017/18
- 2016/17
- SWW 2015/16
- BW 2015/16

### ANNUAL PERFORMANCE REPORT

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Visit us for more information:  
[www.southwestwater.co.uk](http://www.southwestwater.co.uk)

## INTRODUCTION FROM THE MANAGING DIRECTOR

### 2017/18 in review



While 2017/18 will likely be remembered for the extreme weather events which impacted on water and wastewater services nationwide during March 2018 (see page 19), the year itself was characterised by solid operational and financial performance. High levels of drinking water quality were maintained, leakage targets were met and we made further improvements to customer service.



Welcome to our Annual Performance Report and Regulatory Reporting for 2017/18.

**Dr Stephen Bird**  
Managing Director

# 19%

Reduction in total pollution incidents since 2015

# 0

Bathing waters deemed non-compliant due to our assets

# 88 and 85

Increasing Bournemouth and South West Water's SIM<sup>1</sup> scores

The Company once again achieved overall outperformance against its Outcome Delivery Incentives (ODIs), resulting in a net reward of £2.6m for the year. Regretfully, whilst improving, we failed to meet our targets for pollution control. A dedicated improvement programme is underway. This has already resulted in a 19% reduction in overall pollution incidents since the start of the five-year period (2015-20) and we are confident in our ability to reduce the number of incidents further during 2018/19.

### Prioritising health and safety

The health, safety and wellbeing of our people remains paramount to our operations. In recognition of its importance, Pennon Group appointed a new Director for Health, Safety, Security and Assurance in 2017 and subsequently launched the Group-wide HomeSafe initiative to facilitate improved health and safety awareness and positive behavioural change.

It is our ambition to deliver sector-leading performance in this area and South West Water continues to seek out and implement new technologies and ways of working that will further protect our staff.

### Improving the customer journey

In recent years South West Water has focused on delivering improvements to our customer service through investment in people, systems and training. In 2017/18 our customer service (SIM) score reached its best ever. We are also proud to have achieved the Institute of Customer Service 'Service Mark' accreditation during the year.

As part of our strategy to adopt an ever more proactive approach to customer service, we have been developing our capabilities to gather, consolidate and utilise data from across the business.

Our increased use of smart systems and 'business intelligence' is designed to improve the way we operate, the speed we respond to issues and our ability to interact with our customers, through channels appropriate to their needs and preferences. We have also undertaken 'co-creation' workshops with customers on issues such as leakage and external flooding, in order to gauge how we can better deliver the services they rely on.

We continued to expand our award-winning affordability schemes during 2017/18 recognising the challenging financial circumstances some of our customers face. This included the roll-out of our first ever social tariff for customers in the Bournemouth Water region.

### Delivering what matters most

A clean, safe and reliable supply of drinking water continues to be our customers' number one priority and I am pleased to report that drinking water quality remained at near-perfect levels in both service areas during 2017/18.

Key investments during the year included new Granular Activated Carbon (GAC) facilities commissioned at three water treatment works, in addition to significant progress with construction on the cutting edge Mayflower Water Treatment Works serving the Plymouth area (see page 13), which remains on track for commissioning this year.

South West Water recorded its 21<sup>st</sup> consecutive year of no water restrictions, while the Bournemouth Water region maintained its record of having no restrictions since privatisation in 1989. The unprecedented challenges caused by extreme weather in spring 2018 (see page 19) impacted upon our performance in some areas including durations of interruptions to supply, however this is not representative of the long-term trend.

(1) Service Incentive Mechanism.

## Governance principles

- Our governance structure is designed to ensure that we operate effectively and cohesively across the Pennon Group with efficient and transparent decision making while preserving the degree of regulatory independence required of South West Water's ringfenced regulatory business.

See pages 40 to 41 →

- We have adopted our own Board leadership, transparency and governance Code setting out how we comply with Ofwat's principles. To further strengthen this, we have appointed a Senior Independent Non-Executive Director specifically for South West Water.

See page 46 →

- South West Water's governance framework, including the Board, Committees of the Board, the Executive Management and Executive led Sub-Committees and Steering Groups, ensures appropriate leadership oversight of the operations of the Company.

See pages 44 to 49 →

## Protecting the environment

In 2017, nearly 98% (140 out of 143) of bathing waters in the South West Water region met the tougher EU standards introduced in 2015. Despite a relatively wet summer this included all of the bathing waters in Cornwall. None of the non-compliant bathing waters in Devon were caused by South West Water assets.

Our wastewater investment during the year included a £20m investment in Plymouth to help protect bathing water quality. This includes the construction of South West Water's largest ever ultraviolet (UV) disinfection facility for treating storm water.

Elsewhere, we made further progress with our award-winning catchment management programmes (Upstream and Downstream Thinking) – key parts of our holistic approach to the prevention of flooding and pollution.

## Sector-leading financial performance

South West Water continues to lead the sector in many areas, delivering return on regulated equity (RoRE) outperformance through totex savings and financing with the lowest effective rates in the industry, as well as achieving net ODI rewards.

We are determined to sustain our outperformance momentum over the remaining K6 (2015-20) regulatory period and to remain at the forefront of cost efficiency for the water sector. This will benefit customers from 2020 and gives us a strong platform as we prepare for PR19 and develop our business plan for the K7 regulatory period 2020-25.



Our increased use of smart systems and business intelligence is already improving the way we operate.

## Outlook

South West Water remains on track to meet all its targets for the K6 period and, as we prepare for the submission of our Business Plan to 2025 in September this year, we are confident in our ability to deliver further improvements and capitalise on lessons learned.

Moving forward, innovation remains central to our ability to work even more efficiently while staying resilient to future challenges such as climate change and population growth. In addition to our pioneering use of new technologies and the fostering of an innovative working culture we are making more use of operational and customer data than ever before. We are already seeing how this will act as the catalyst for a step change in how we operate in years to come.

With that in mind, it gives me great pleasure to thank all our employees for their hard work and professionalism in 2017/18, not least in the face of the extreme adverse weather experienced during March 2018. I look forward to our continued progress and success across all business areas in 2018/19.

Dr Stephen Bird  
Managing Director, 12 July 2018



## Isles of Scilly

During 2016 we made an expression of interest to the Department of Environment, Food and Rural Affairs (Defra) to extend our operational area to cover the Isles of Scilly for water and wastewater services. Since that time, we have been working with Defra and the Council of Isles of Scilly, along with Tresco Estate, the Duchy of Cornwall, the Environment Agency (EA) and the Drinking Water Inspectorate (DWI) with a view towards understanding the investment required to bring services up to the standards enjoyed across the rest of England and Wales. As part of this due diligence assessment we have already consulted with customers who have indicated their support for improvements on the Islands that will benefit the wider South West economy.

We submitted a draft business plan to Defra in June 2017 and in February 2018 it was agreed that our plan should proceed to the next stage of implementation. Defra will now look to make the appropriate changes to apply the Water Industry Act 1991 to the Isles of Scilly which will also enable South West Water to apply to Ofwat to have its area of appointment extended, subject to further consultation.

## BUSINESS MODEL AND STRATEGY

# Creating sustainable value

## Our business model

Underpinned by strong governance, our business model is designed to ensure we:

- deliver value for money services while keeping bills affordable to customers
- meet or exceed the high quality standards set by our regulators
- safeguard our existing investments (e.g. networks, treatment works, operational assets and systems)
- minimise the impact of our activities on the environment
- ensure fair returns for our investors
- are able to meet future challenges such as climate change, resilience, population growth and new legislation.

### What we do

- 1. We abstract water from the environment**
  - maintenance of dams including upgrading spillways
  - maintenance and upgrades of pumps and other assets (e.g. pipework)
  - generation of renewable energy using hydropower, solar panels and wind power.
- 2. We clean it and make it safe to drink**
  - maintenance of existing treatment works
  - improvements to the drinking water treatment processes
  - investment in Granular Activated Carbon (GAC) and other technological advancements to improve efficiency and quality.
- 3. We distribute it to our customers**
  - ensuring that clean treated water reaches our customers at the same level of quality as when it leaves our treatment works
  - ensuring reliability of supplies
  - preventing leakage and bursts.
- 4. Our customers rely on the services we provide**
  - ensuring customers get excellent service when they contact us
  - ensuring billing and payment systems work smoothly
  - making the most of technologies and digital communications (e.g. website and social media).
- 5. We collect wastewater**
  - maintenance and upgrades of sewerage infrastructure (network and other assets)
  - investment to reduce flood risk and associated pollution incident risks.
- 6. We treat it and return it to the environment**
  - maintenance and improvement of wastewater treatment assets as well as wastewater pumping stations
  - wastewater treatment improvements to protect bathing and shellfish water quality
  - bio-resource recycling
  - energy generation from treatment processes through Combined Heat and Power (CHP) and solar panels.

### The strengths we rely on

#### The best people

The talent, commitment and hard work of our people is the foundation of our success. As a responsible employer we are focused on employee wellbeing, retention, training and development, productivity and, above all, an unwavering commitment to health and safety.

#### Effective governance

Strong governance framework provides oversight and support to the Company including robust decision-making and performance management processes.

#### High quality assets

We invest in the construction of world-class facilities and plants that use state-of-the-art technology. We engage the best people to maintain and operate our fleet of assets.

#### Strong relationships with our suppliers

We work closely with our suppliers and take the steps necessary to ensure their performance meets our expectations. We expect them to uphold our standards, align with our policies, protect human rights and promote good working conditions.

#### Efficient financing

The strength of our proposition and investor confidence in our performance and reputation means that we are well funded with efficient long-term financing.

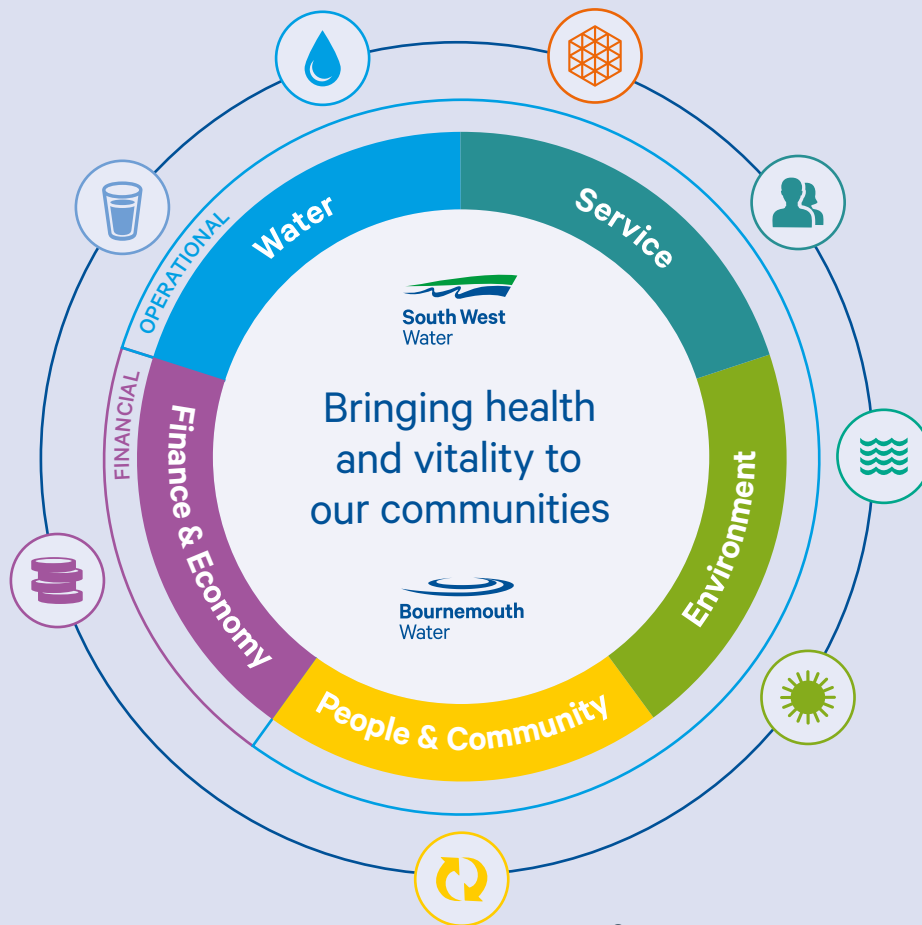
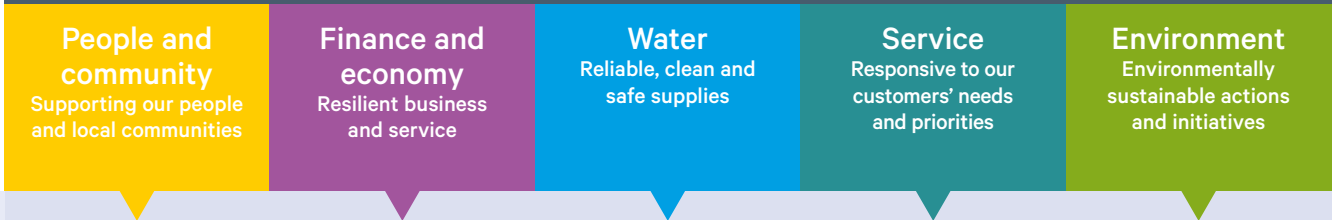
#### Well-managed risk

Comprehensive and fully embedded risk management processes assist us in identifying and managing risks and opportunities to deliver the Company's strategy and objectives.



## Our strategic focus areas

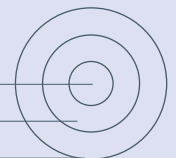
Read more about our strategy on page 06 →



Our purpose

Our strategic focus areas

Our business outcomes 2015-2020



## For the benefit of our stakeholders



## BUSINESS MODEL AND STRATEGY

# Risks and accountability

### Strategic focus areas

### Our business outcomes 2015–2020

### Our strategy

<p><b>Water</b> Reliable, clean and safe supplies</p> <p>See pages 10 to 15 →</p>	<p> Clean, safe and reliable drinking water</p> <p> Available and sufficient resources</p>	<p>Innovation, partnership working and the use of new technology are key to delivering reliable, high quality drinking water supplies.</p> <p>Targeted investments are made to ensure we meet or exceed our regulatory and legislative obligations.</p>
<p><b>Service</b> Responsive to our customers' needs and priorities</p> <p>See pages 16 to 19 →</p>	<p> Responsive to customers</p> <p> Resilience</p>	<p>Meeting our customers' needs and ensuring value for money is critical to our success as a business.</p> <p>We are committed to improving the quality and responsiveness of the services they depend on.</p>
<p><b>Environment</b> Environmentally sustainable actions and initiatives</p> <p>See pages 20 to 25 →</p>	<p> Reliable wastewater services</p> <p> Protecting the environment</p>	<p>The health of the natural environment is essential.</p> <p>In every aspect of our operational activity we seek to minimise our impact on the environment while making enhancements to it where possible.</p>
<p><b>People and community</b> Supporting our people and local communities</p> <p>See pages 26 to 29 →</p>	<p> Benefiting the community</p>	<p>Our people strategy is designed to attract, retain and develop the right people with the right skills.</p> <p>We are also committed to making a positive contribution to the communities we serve.</p>
<p><b>Finance and economy</b> Resilient business and service</p> <p>See pages 30 to 31 →</p>	<p> Fair charging for all</p>	<p>We aim to attract low-cost financing, maintain the confidence of our investors and generate additional returns from outperformance.</p> <p>We optimise efficiency and make prudent investment decisions to ensure our charges are fair.</p>

## Related principal risks\*

See risk report section (pages 62 to 73) for further details →

- Poor operating performance due to extreme weather or climate change (Risk J)
- Business interruption or significant operational failures/incidents, (including drinking water contamination) (Risk L)
- Failure of IT systems, management and protection including cyber risks (Risk O)

- Poor customer service/increased competition leading to loss of customer base (Risk K)
- Business interruption or significant operational failures/incidents (Risk L)
- Failure of IT systems, management and protection including cyber risks (Risk O)

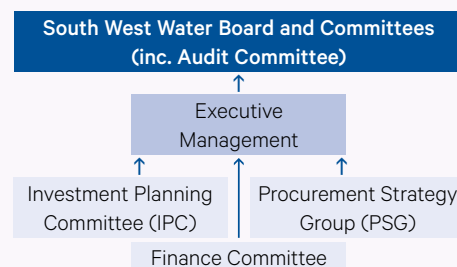
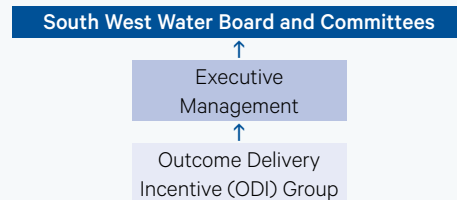
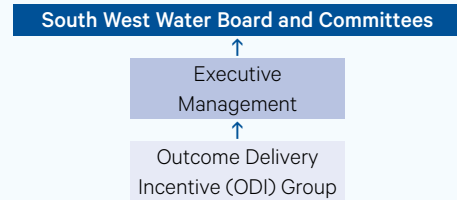
- Regulatory reform (Risk B)
- Compliance with laws and regulations (Risk C)
- Poor operating performance due to extreme weather or climate change (Risk J)
- Business interruption or significant operational failures/incidents (Risk L)

- Non-compliance or occurrence of avoidable health and safety incident (Risk E)
- Tax compliance and contribution (Risk F)
- Difficulty in recruitment, retention & development of skills (Risk M)

- Change in government policy/re-nationalisation (Risk A)
- Regulatory reform (Risk B)
- Compliance with laws and regulations (Risk C)
- Maintaining sufficient finance and funding to meet ongoing commitments (Risk D)
- Tax compliance and contribution (Risk F)
- Increase in defined benefit pension scheme deficit (Risk G)
- Non-recovery of customer debt (Risk H)
- Macro-economic risks impacting commodity and power prices (Risk I)
- Failure or increased cost of capital projects/exposure to contract failures (Risk N)

## Accountability

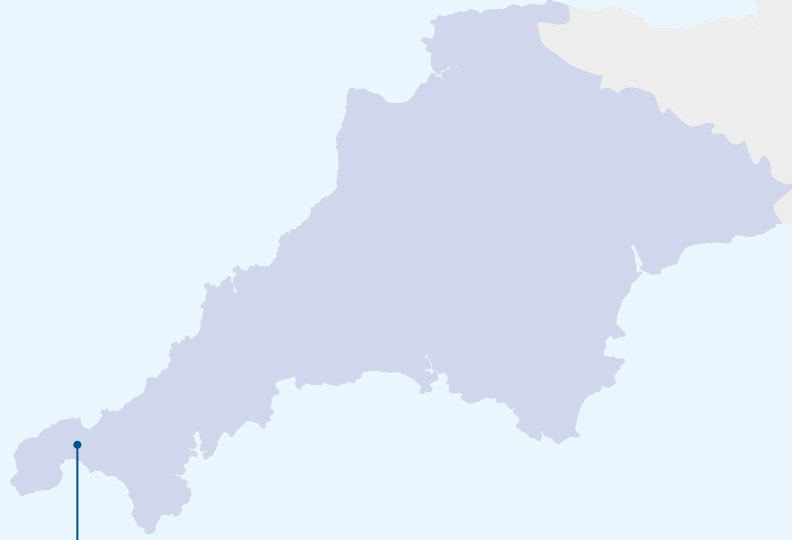
See Governance pages 40 to 49 for more info →



\* South West Water reviews its risks on an ongoing basis (see page 47 for details of the Risk and Assurance Forums). The principal risks disclosed within this report are as those in the Annual Report and Financial Report pages 23 to 34.

PERFORMANCE SUMMARY

Delivering against targets



**3 of 5**  
2017/18 targets met  
(5 targets in 2020)

- ✓ Taste, smell and colour contacts
- ✓ Asset reliability – processes
- ✓ Asset reliability – pipes
- ✗ Compliance with water quality standard
- ✗ Interruptions to supply

**1 of 2**  
2017/18 targets met  
(5 targets in 2020)

- ✓ Operational contacts resolved first time (water)
- ✗ Operational contacts resolved first time (wastewater)

**2 of 2**  
2017/18 targets met  
(4 targets in 2020)

- ✓ Number of restrictions placed on customers
- ✓ Leakage

**3 of 7**  
2017/18 targets met  
(15 targets in 2020)

- ✓ Drinking water pollution incidents category 1 & 2
- ✓ EA water stress status
- ✓ Wastewater treatment works descriptive compliance
- ✗ Wastewater treatment works numeric compliance
- ✗ Wastewater pollution incidents category 1 & 2
- ✗ Wastewater pollution incidents category 3 & 4
- ✗ Drinking water pollution incidents category 3 & 4

**6 of 6**  
2017/18 targets met  
(6 targets in 2020)

- ✓ Odour contacts
- ✓ Compliance with sludge standard
- ✓ Asset reliability – process
- ✓ Asset reliability – pipes
- ✓ Internal sewer flooding
- ✓ External sewer flooding

**1 of 1**  
2017/18 target met  
2 targets in 2020

- ✓ Non-compliant bathing waters

**On track**  
1 target in 2020

**0 of 1**  
2017/18 target met  
(2 targets in 2020)

- ✗ Domestic customers paying a metered bill



**Key**

**Result**

- ✓ Met
- ✗ Not met – no financial penalty
- ✗ Not met – financial penalty

South West Water has a range of targets across both of its operational areas.

The range includes targets with annual performance commitments and those with only 2020 commitments.

Of the annual targets South West Water delivered 16 out of 24 targets and Bournemouth Water delivered 5 out of 5 targets for 2017/18. We are on track to deliver those commitments with 2020 only targets.

Of the targets not met, three were within financial deadbands/tolerances, such that financial penalties were not incurred. Across both areas, a total of 24 of 29 annual targets were either met or were within this financial deadband.

The 'Our Performance' section of this document (pages 10 to 37) summarises performances against all of our targets (including those which have only 2020 targets). The section includes commentary on additional South West Water KPIs, not included in the performance commitments target summary on this page.

Where performance currently falls short of target, measures are described to bring performance back to the committed performance levels.

### Our 2020-25 business plan and future targets

In September 2018 we will be publishing our business plan covering both our operational areas.

Following extensive customer engagement, company research and regulatory requirements, we will produce an updated set of targets which will be applied across the South West and Bournemouth areas on an aggregated basis.

The new targets will also include revised definitions in certain areas, including where consistent definitions have been agreed across the industry.

From 2018/19, in addition to continuing to report on our existing measures, we will also provide our performance in line with these updated targets.

OUR PERFORMANCE



Clean, safe and reliable drinking water

Providing customers with an uninterrupted supply of fresh clean water that not only meets the highest water quality standards but is also free from any unwanted taste, smell or colour.

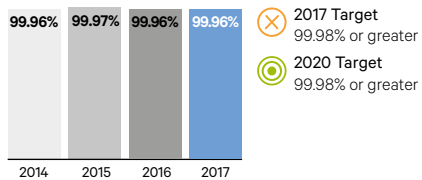


Key Type	Result
£+/- Financial (penalty or reward)	✓ Met
£- Financial (penalty only)	🎯 On target
Rep Reputational	✗ Not met but no financial penalty
KPI KPI	✗ Not met



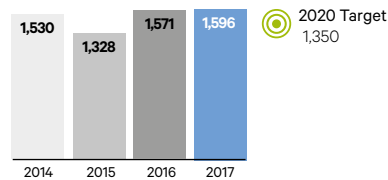
1. Compliance with water quality standard<sup>(1)</sup>

£-



4. Number of mains bursts

KPI



South West Water

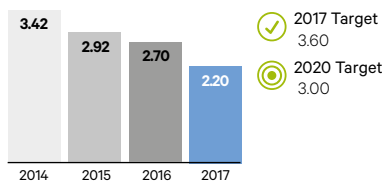
1. Drinking water quality

In 2017, South West Water achieved 99.96% compliance with official drinking water quality standards. Although this remains very high it is marginally lower than our target of 99.98%.

Compliance is based on samples taken from all stages of the water supply from source to tap, throughout the year. None of the samples which failed during 2017/18 posed a risk to public health.

2. Taste, smell and colour contacts (Nr/1,000 population)

£+/-



5. Asset reliability

£-

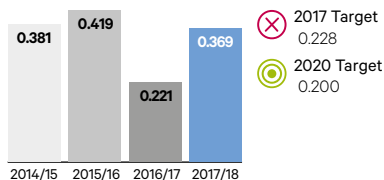
Processes	2014/15	2015/16	2016/17	2017/18	17/18 Target	2020 Target
Processes	Stable	Stable	Stable	Stable	Stable	Stable
Pipes	Stable	Stable	Stable	Stable	Stable	Stable

We continually seek to maintain and improve the high quality of the drinking water we provide. During the year our notable investments included granular activated carbon (GAC) and ultraviolet (UV) disinfection processes commissioned at three additional treatment works.

These new processes will improve drinking water taste and odour and help secure long-term compliance with our water quality obligations.

3. Interruptions to supply (hours per property)

£+/-



Construction also continued on the Mayflower Water Treatment Works which will be completed and begin to supply Plymouth and the surrounding area during late 2018 as planned. The first of its kind in the UK, Mayflower utilises cutting edge ion-exchange and ceramic microfiltration technologies which are more sustainable and efficient than traditional processes.

South West Water also continues to target improved drinking water quality through our 'Upstream Thinking' programme of catchment management. Visit [www.upstreamthinking.org](http://www.upstreamthinking.org) to find out more.

(1) As measured by Mean Zonal Compliance.



## 2. Taste, smell and colour contacts

In addition to achieving excellent water quality, we are committed to minimising any taste, smell or discolouration issues.

The number of contacts per 1,000 population continued an improving trend, falling to just 2.20 contacts per 1,000 population in 2017. This is fewer contacts than both our 2017 target and the target for 2020.

Progress is being achieved through a combination of upgrades to water treatment works, including the increasing utilisation of GAC and UV treatment processes, and the flushing of drinking water mains.

We remain focused on using innovative technologies and systems to better model, manage and maintain our drinking water network.

## 3. Interruptions to supply

The extreme weather in March 2018, especially the rapid freeze and thaw conditions, unfortunately resulted in the average duration of supply interruptions increasing compared to 2016/17 and this duration is longer than our target for 2017/18. Had the extreme weather not occurred South West Water would have met its target.

Following the significant underlying results already achieved during this business plan period we continue to work with our network alliance to improve the forecasting of workloads and effective utilisation of resources. These plans are aimed at bringing the average duration back within South West Water's annual targets and achieving our 2020 target of 12 minutes per property or less (0.2 hours).

## 4. Number of mains bursts

South West Water has set itself a challenging internal target of reducing the number of mains bursts to 1,350 or less per year by 2020.

We are reporting this target throughout the business plan period alongside our ODIs, given the significant impact mains bursts can have upon household and business customers' supplies and recognising that reducing the number as well as the duration of interruptions is important.

The number of bursts increased again in 2017. During the year, we enhanced our use of root cause analysis to reduce repeat asset failures. In addition we continue to improve the effectiveness of our pressure management techniques in order to 'calm' the network.

Whilst some bursts are beyond our control (such as those caused by third parties), we are confident that we will achieve our 2020 target.

## 5. Asset reliability

Our goal is to maintain the ability of our assets to deliver reliable and robust services to customers.

The technical assessment of long-term reliability uses a range of measures established under our long-standing serviceability assessment processes.

These measures are shown in table 3B (see page 108). Most notably the trend noted in the previous two years of increases to supply interruptions in excess of 12 hours has been reversed and brought within our reference levels.

In 2017/18 South West Water's asset reliability continued to be stable against all of these measures.

OUR PERFORMANCE



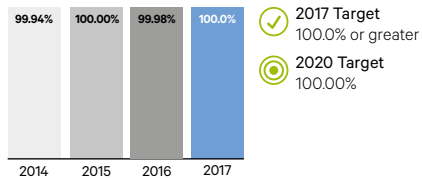
Clean, safe and reliable drinking water continued



<p><b>Key Type</b></p> <ul style="list-style-type: none"> <li><span style="color: blue;">£+/-</span> <b>Financial</b> (penalty or reward)</li> <li><span style="color: blue;">£-</span> <b>Financial</b> (penalty only)</li> <li><span style="color: blue;">Rep</span> <b>Reputational</b></li> <li><span style="color: blue;">KPI</span> <b>KPI</b></li> </ul>	<p><b>Result</b></p> <ul style="list-style-type: none"> <li><span style="color: green;">✔</span> <b>Met</b></li> <li><span style="color: green;">🎯</span> <b>On target</b></li> <li><span style="color: orange;">✘</span> <b>Not met but no financial penalty</b></li> <li><span style="color: red;">✘</span> <b>Not met</b></li> </ul>
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**Bournemouth Water**

**1. Compliance with water quality standard<sup>(1)</sup>**



£-

**Bournemouth Water**

**1. Drinking water quality**

Bournemouth Water achieved 100.0% compliance (as measured by mean zonal compliance) in 2017/18. This continues to represent a high standard for drinking water quality and is in line with our committed performance level of 100.0%.

Improvements such as ultraviolet (UV) treatment have contributed to the high standard in recent years, and we continue to invest to ensure that 100.0% compliance is achieved.

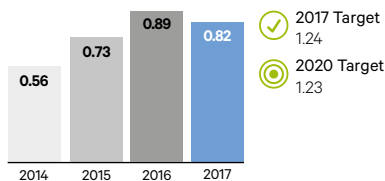
**2. Customer contacts: taste and appearance**

Customer contacts relating to the taste, appearance and odour of drinking water remained within our committed performance level and were lower than the previous year. The number fell from 0.89 per thousand customers to 0.82 per thousand customers.

Most instances of this type of contact do not have health implications and are of short duration.

In South West Water we are focused on using innovative technologies and systems to better model, manage and maintain our drinking water network. We have been applying these technologies and systems in the Bournemouth area to continue to remain within the committed performance levels.

**2. Customer contacts: taste and appearance**



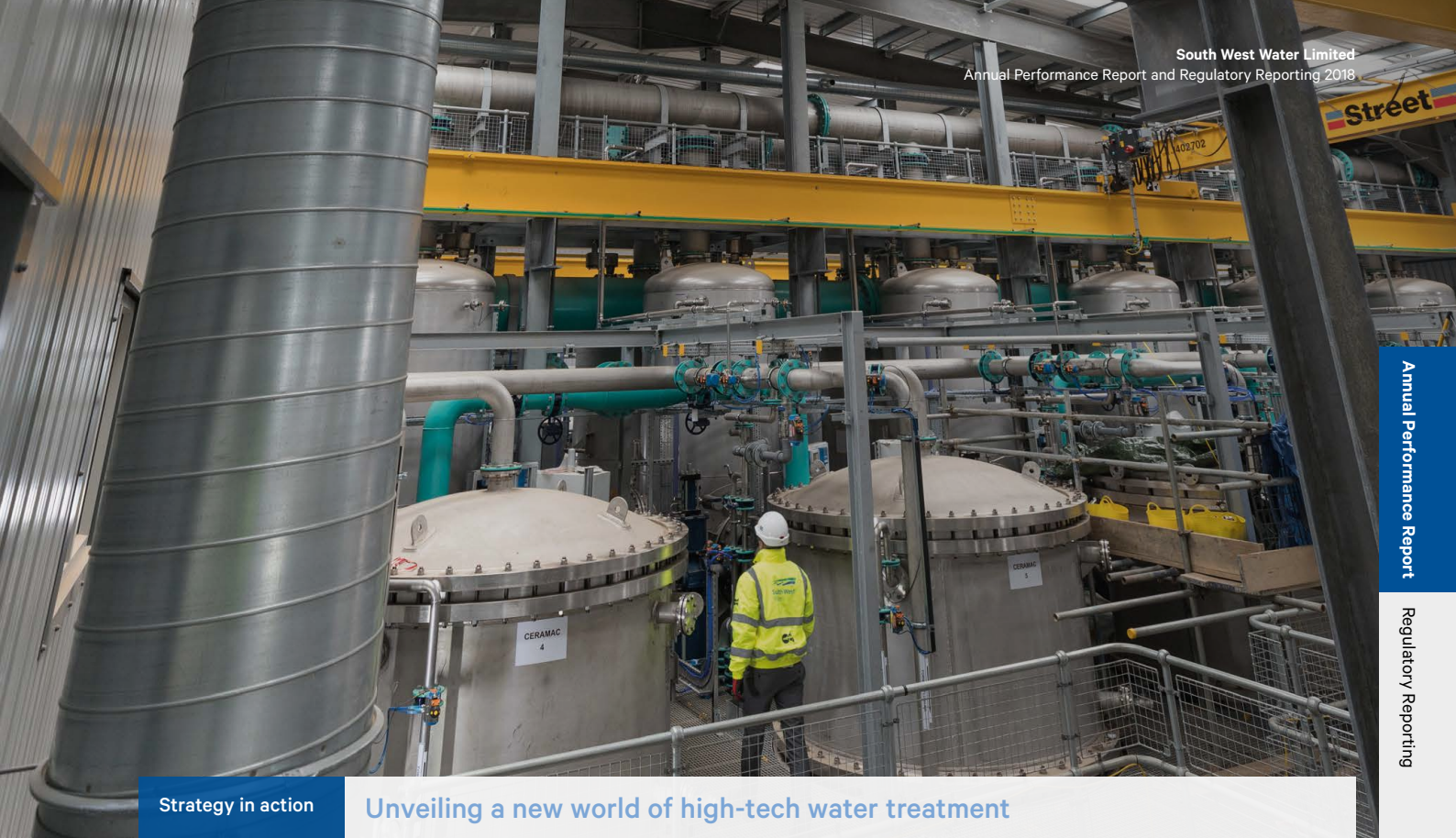
£-



Our target is to continue to maintain our assets' ability to deliver reliable and robust services.

(1) As measured by Mean Zonal Compliance





Strategy in action

## Unveiling a new world of high-tech water treatment



# 90MI

of drinking water  
served every day

# £60m

Cost of the project



After years of research and detailed planning it is exciting to see our flagship water treatment works taking shape.

**Dr Stephen Bird**  
Managing Director

During 2017/18 construction progressed as planned with the Mayflower Water Treatment Works, South West Water's £60 million state-of-the-art treatment works, which will serve Plymouth and the surrounding area.

Work started on site in April 2016 and Mayflower is on schedule to become operational in Autumn 2018 with commissioning underway.

The project, the first of its kind in the UK, has been attracting widespread interest from other UK water companies and around the world, as it will use innovative water treatment processes to deliver even cleaner water more efficiently, helping to keep customer bills down.



Mayflower will also be producing renewable energy on site, using fewer chemicals and producing less waste than a conventional treatment works.

The cutting-edge treatment processes were designed and developed by Dutch water technology company PWNT (wholly owned by Dutch water utility PWN) and tested at our prototype facility in Plymouth from June 2013 until June 2015.

The new technology deploys a SIX® suspended ion exchange with resin regeneration system, ILCA® inline coagulation and CeraMac® C90 ceramic membrane microfiltration. It is the first time that this combined technology is being used in the UK.

The works will house ten C90 vessels containing a total of 900 ceramic membranes and be capable of treating up to 90 megalitres of water a day.

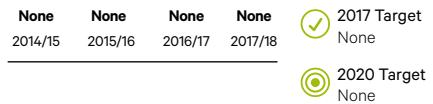
OUR PERFORMANCE

 Available and sufficient resources

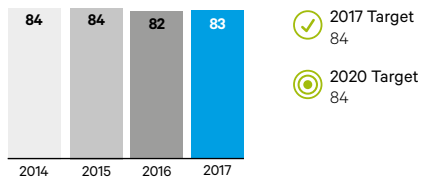
Avoiding restrictions on the water our customers use while managing and delivering supplies as sustainably as possible.



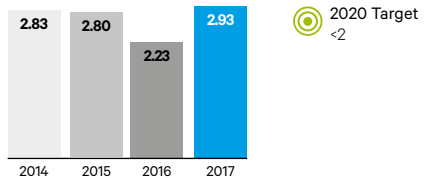
1. Number of restrictions placed on customers



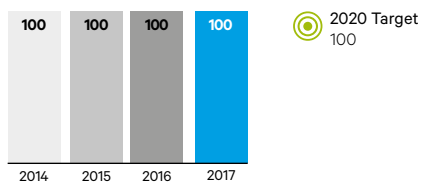
2. Leakage (Megalitres/day)



3. Time taken to fix significant leaks (Days)



4. Security of Supply Index (SoSI)



South West Water

1. Water resources

2017 was the 21<sup>st</sup> consecutive year without water restrictions in the South West Water area. Bournemouth Water again maintained its record of no water restrictions.

Prior investment in reservoirs, the use of pumped storage and supply network improvements continue to ensure adequate supplies.

In February 2018, we published our Draft Water Resources Management Plan for consultation which considers our supply-demand balance for the next 25 years.

This showed that whilst we have no impending shortfall, our supply-demand position is becoming tighter due to factors such as the growing population and the impact of climate change. To mitigate this we have proposed a proactive strategy to further prevent and reduce leakage, promote water efficiency and develop our water resource planning tools.

These measures balance the competing needs of affordability and resilience and will ensure we continue to provide a reliable service to our customers, now and in the future.

2. Leakage (South West Water area)

South West Water again met its target to maintain leakage levels below 84 Megalitres per day.

During 2017/18 we continued to invest in data collection and analytics. This enables us to better record and understand the relationship between water consumption and internal and external water losses across our domestic and business consumer base.

To more efficiently and effectively detect leaks we have also introduced innovative technologies including new sensors. These are enabling us to better pinpoint leaks.

To better assess the condition and potential losses on our longer trunk mains we are deploying industry-leading inspection technologies and focusing on minimising losses on strategically important areas of our distribution network. We also continue to implement real-time pressure management and online network modelling.

3. Time taken to fix significant leaks

The new technologies which are allowing our technicians to pinpoint leaks more quickly not only contribute to reducing leakage levels but also help us to ensure leaks are fixed as quickly as possible.

The average time taken to fix significant leaks can be heavily impacted by weather conditions and this measure has risen in 2017/18 as a result.

Nonetheless we believe that with the continued implementation of technology, especially with a focus on leak detection in urban areas, South West Water remains on track to meet its 2020 target.

4. Security of Supply Index (SoSI)

The Security of Supply Index (SoSI) is an industry-wide measure which considers water resource, leakage and demand management issues. South West Water's achievement of the maximum score of 100 indicates that we have no deficit in any area.

We continue to promote water efficiency and install free meters, which generally encourage customers to reduce consumption.

Key Type

- £+/- Financial (penalty or reward)
- £- Financial (penalty only)
- Rep Reputational
- KPI KPI

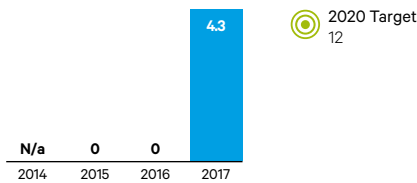
Result

- ✓ Met
- 🎯 On target
- ✗ Not met but no financial penalty
- ✗ Not met

**Bournemouth Water**

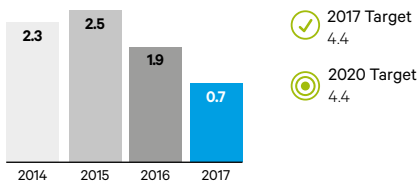
**1. Large scale interruptions**  
(thousand properties improved)

£+/-



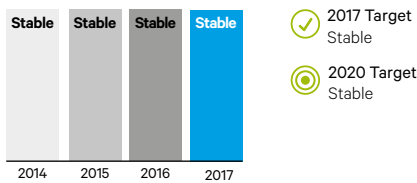
**2. Average length of supply interruptions**  
(mins/property)

£-



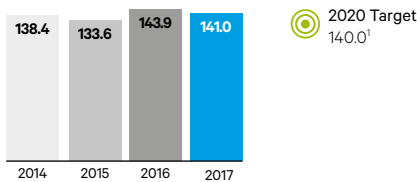
**3. Serviceability**

£-



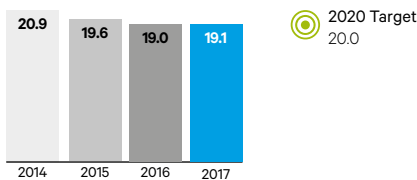
**4. Per capita consumption**  
(l/h/d)

Rep



**5. Leakage**  
(Megalitres/per day)

£+/-



**Bournemouth Water**

**1. Large scale interruptions**

During the year we completed a resilience scheme covering 4,324 properties in the Wimborne area. This involves the use of an alternative trunk main in the event of failure of the usual pipe.

We are on track to complete a similar scheme in Bournemouth and as a result will exceed our target of 12,000 properties by providing an alternative trunk main supply to c.17,000 properties by 2020.

**2. Average length of supply interruptions**

In 2017/18 there has been a further reduction in the duration of supply interruptions (in excess of three hours) to customers, with an average length of 0.7 minutes per property, compared to our target of 4.4 minutes per property. The reduction in this measure, which is an average across all properties in the Bournemouth Water supply area, reflects both a reduction in the number and length of interruptions when they have occurred.

All interruptions are carefully managed, with emphasis on completing work as soon as possible to restore supplies.

**3. Serviceability of assets**

Consistent with the position in the South West Water area, Bournemouth Water's asset reliability also continued to be deemed stable against all of the sub-measures, which underlie our serviceability measure (see table 3B on page 108 for performance against each sub-measure).

**4. Per capita consumption**

Bournemouth Water's per capita consumption fell in comparison with 2016/17 performance following an increase during 2016/17, due in part to the reallocation of a number of large blocks of flats to a household categorisation following non-household retail market opening.

The reduction in the current year follows a continuation of customers opting to have a water meter installed and a movement towards more water efficient fixtures and fittings. This is in line with our long-term expectation of a steady reduction over time.

**5. Leakage (Bournemouth Water area)**

Leakage levels of 19MI/d in the Bournemouth Water area are consistent with last year and remain well within our performance commitment target.

This outperformance has been delivered through comprehensive pressure management coverage as well as network modelling across the area.

**Water Resources Management Plan**

In February 2018, we published our Draft Water Resources Management Plan for consultation which considers our supply-demand balance for the next 25 years.

This showed whilst we have no impending shortfall, our supply-demand position is becoming tighter due to factors such as the growing population and the impact of climate change. To mitigate this we have proposed a proactive strategy to further reduce leakage, promote water efficiency and develop our water resource planning tools.

These measures balance the competing needs of affordability and resilience and will ensure we continue to provide a reliable service to our customers, now and in the future.

(1) As confirmed by Ofwat in a Corrigendum to the PR14 Final Determination.

OUR PERFORMANCE



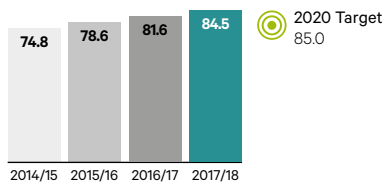
Responsive to Customers

Dealing with our customers' requests, problems and queries quickly and efficiently and ensuring the service they receive represents value for money.

<b>Key Type</b>	<b>Result</b>
£+/- Financial (penalty or reward)	✓ Met
£- Financial (penalty only)	🟡 On target
Rep Reputational	🔴 Off target
KPI KPI	🟡 Not met but no financial penalty
	🔴 Not met



1. Service Incentive Mechanism



£+/-

South West Water

1. Service Incentive Mechanism

South West Water achieved its highest performance to date against the Service Incentive Mechanism (SIM) – the industry – wide measure of customer satisfaction – and remains on track to achieve a score of 85 by 2020.

Our continued year-on-year improvement in customer satisfaction, which includes a reduction in written complaints and the largest industry qualitative performance improvement, follows significant investment and focus on recruitment, training and developing the best people for our business. We have undertaken co-creation workshops with customers and are using 'Voice of the Customer' technology to better understand how we can meet their needs.

Our strategy is to be increasingly more proactive in the way we interact with customers, notifying them when issues may arise and ensuring we communicate with them in the most appropriate channel to their needs and preferences.

3. Customer satisfaction with value for money

South West Water's customer satisfaction with value for money improved slightly during 2017/18.

We continued with our pledge to ensure any rise in average household bills would remain less than inflation over 2015-20. Indeed, the average household bill has not risen for 2018/19, and is lower than it was nine years ago.

4. Resolving contacts first time

Our goal is to prevent issues and problems occurring, avoiding the need for customers to contact us.

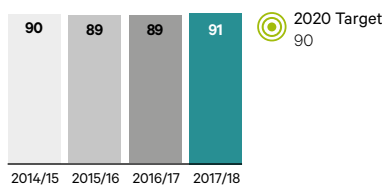
However, when a customer does need to get in touch, our aim is to resolve all contacts as quickly and professionally as possible.

In 2017/18 we successfully increased the proportion of contacts resolved first time in both the water and wastewater areas, with overall performance reaching 95% (2016/17: 94%).

Our water team again performed especially well, exceeding both the 2017/18 and 2020 targets, with 96.1% of contacts now being resolved first time. This was their second successive year achieving performance in excess of the 2020 target.

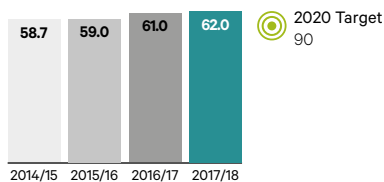
The volume of wastewater contacts resolved first time has also improved from 89.9% to 91.6% and although still behind the annual and end of period targets, further initiatives are planned to achieve the 2020 target of 95%.

2. Customer satisfaction (%)



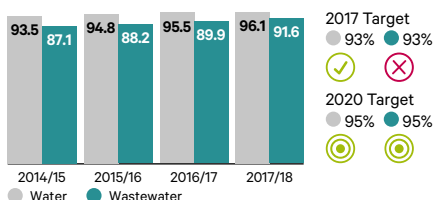
Rep

3. Customer satisfaction with value for money (%)



Rep

4. Operational contacts resolved first time (%)



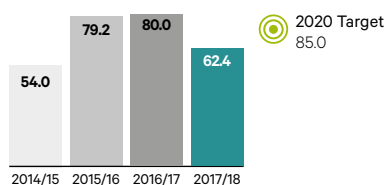
£+/-



**Bournemouth Water**

**5. Repairing visible leaks**

£-



**Bournemouth Water**

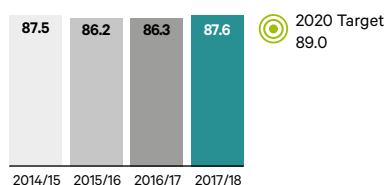
**5. Repairing visible leaks**

The percentage of visible leaks fixed within seven days has decreased in 2017/18 to 62.4%.

Despite our best efforts, not all leaks can be dealt with promptly as some require road or lane closures for the work to be carried out safely. We liaise closely with the highways authorities so that work can be done at a time that causes the least amount of disruption.

**6. Service Incentive Mechanism**

£+/-



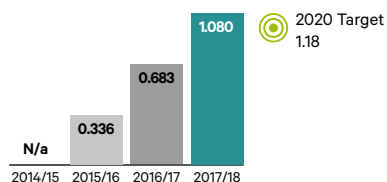
South West Water is working with its contractors to ensure that targeted measures are implemented to ensure that this measure improves in 2018/19.

**6. Service Incentive Mechanism**

At 87.6, Bournemouth Water's strong SIM performance is the highest for three years. Bournemouth Water has consistently performed well against the SIM measure of customer service. This year's performance has included upper quartile drinking water customer experience and a 40% reduction in residential written complaints.

**7. New customer relationship management system**

£-



**7. New customer relationship management system**

The new billing system for the Bournemouth Water area was successfully implemented in 2015/16.

Depreciation of the system (reflective of the amount invested) is in line with the target proposed as part of the 2015-20 business plan for cumulative depreciation of £1.08m over the period.

**Understanding the 'Voice of the Customer'**

During 2017/18 we introduced a number of proactive customer service improvements. These included the in-house development of our 'Voice of the Customer' (VoC) technologies, designed for use as a transactional (retail) survey and customer engagement tool. This has been innovatively adapted to fit with the unique needs of the wholesale area of our business.

The technology has helped us increase the speed and quality of our responses through a more proactive and tailored approach. In conjunction with a wide-ranging number of process, people, technology and proactive customer service improvement initiatives implemented during the year, this has helped South West Water achieve a larger in-year increase in its Customer Experience Survey score (which is an industry comparison of customer service) than any other water company.

OUR PERFORMANCE

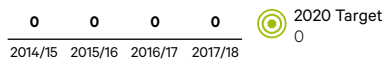


# Resilience

Making sure the water and wastewater services we provide can withstand the potential impact of extreme weather and security threats.



**1. Supplies interrupted (>24 hours) due to flooding on our sites** £+/-



Key Type	Result
<b>Financial</b> (penalty or reward)	<b>Met</b>
<b>Financial</b> (penalty only)	<b>On target</b>
<b>Reputational</b>	<b>Not met but no financial penalty</b>
<b>KPI</b>	<b>Not met</b>

**1. Protecting operational sites from flooding**

With our changing climate and unpredictable weather we need to ensure our sites are sufficiently protected and that systems are in place to enable a rapid recovery should a flooding event occur. It is our aim to find the most sustainable solutions to dealing with flood risk using a multi-agency, integrated approach.

Annual rainfall levels were slightly higher than in 2016/17, but broadly in line with the long-term average. March 2018 saw extreme adverse cold weather with rapid freeze and thaw conditions. There were no interruptions of greater than 24 hours caused by flooding at our sites in 2017/18.

In March, when one site (Allers near Tiverton) was impacted by flooding, we worked promptly to ensure any disruption was minimised. This included rapidly dealing with the flood, whilst diverting drinking water to the impacted area from other treatment works.

During 2017/18 South West Water has invested in innovative temporary flood defence barriers which can be deployed quickly for use in our

communities to prevent or reduce storm and flood damage, enabling us to maintain our service to customers.

These flood defence barriers provide us with a flexible approach to flood protection, as they can be deployed to any site, adapted to a variety of terrain and can also be used to divert river flows. This provides us with a cost-effective and flexible way to protect our assets rather than undertaking large scale capital schemes at a number of our sites. They can also be deployed to partner organisations if required.

Other ongoing activities include:

- working closely with the Environment Agency and other stakeholder groups, including local councils, to identify and mitigate potential flooding issues
- using advanced computer modelling techniques and historical data for planning purposes
- reviewing flood risk assessments to underpin PR19 investment proposals.



## March 2018 cold weather 'The Beast from the East'

In March 2018 a period of abnormally cold weather and heavy snowfall provided significant operational challenges, especially in the South West of England, where the Met Office issued its first ever 'red' warning relating to snow in England.

The extreme cold weather led to an increase in bursts, which in turn resulted in supply interruptions in some areas of Devon and Cornwall. Contingency plans were utilised to ensure that supplies of raw water were maintained to water treatment works and that leaks resulting in interruptions to supply were fixed as quickly as possible, despite the challenging conditions.

South West Water's response was led from our central control room in Exeter, providing round the clock, 24/7 leadership guidance and decision-making as appropriate. In response to the forecast, advance preparation was undertaken across all key business areas with resources already in place to enable a swift and efficient incident response. This included plans to ensure customers would be kept informed via a range of communication channels.

Precautionary measures were taken in Drinking Water Operations to ensure that any challenges to critical production assets, particularly at less accessible sites, were mitigated through 24/7 manning.

This was introduced at an additional 11 sites in the period leading up to the incident. Precautionary resourcing plans were also developed in Drinking Water and Wastewater Operations, which included additional supply chain support.

As the weather began to impact on customer supplies, South West Water acted swiftly to ensure that alternative water supplies were provided. In areas where mains supplies were disrupted, water was provided to customers using bowsers, tankers and bottled water. Bowsers and tankers were already on standby at a number of strategic locations across the region and bottled water supplies were also provided through existing emergency contract arrangements.

Staff (both field and office-based), partners and contractors as well as staff from fellow group companies such as Viridor HGV drivers worked tirelessly to minimise the disruption. There were many examples of staff going 'above and beyond' in order to support the incident response. For example, some staff living in affected areas acted as a liaison point within their communities, providing advice and support and assisting with the distribution of alternative water supplies.

Staff welfare was considered throughout with a clear and consistent message from the Executive through the HomeSafe internal safety campaign, which included advice on how to stay safe in the cold weather.

Following the resumption of supplies, South West Water provided recycling facilities to ensure that the plastic bottles provided to customers could be returned for recycling. We also took a proactive approach to compensating our affected customers at a level in excess of statutory obligations and within a fortnight of the period of cold weather.

South West Water's response drew praise from many customers and media, as illustrated by the following quote from the Western Morning News on 7 March 2018:

"...here in the Westcountry, South West Water acted swiftly and sensitively to get bottled supplies to where they were needed, set up bowsers where appropriate and worked round-the-clock to fix the leaks ... few can fault the speed and efficiency with which SWW dealt with the problem..."

OUR PERFORMANCE



Reliable wastewater services

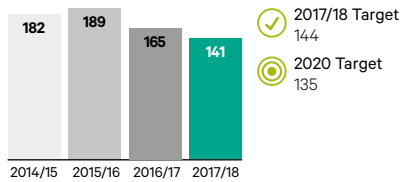
Ensuring our customers can rely on us to remove and dispose of wastewater safely and efficiently, and that the likelihood of sewer flooding affecting homes and businesses is minimised.

Key Type	Result
<ul style="list-style-type: none"> <li>£+/- Financial (penalty or reward)</li> <li>£- Financial (penalty only)</li> <li>Rep Reputational</li> <li>KPI KPI</li> </ul>	<ul style="list-style-type: none"> <li>✓ Met</li> <li>🎯 On target</li> <li>✗ Not met but no financial penalty</li> <li>✗ Not met</li> </ul>



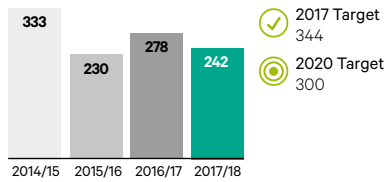
1. Internal sewer flooding

£+/-



4. Odour contacts

£+/-



South West Water

1. Internal sewer flooding

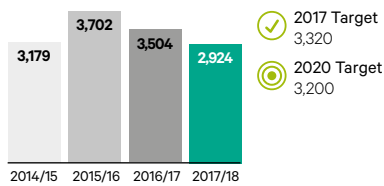
We outperformed our internal sewer flooding target for the year resulting in a £0.2m reward and are on track to achieve our 2020 target.

Repeat internal sewer floodings remain less than half the numbers compared to the beginning of the AMP (2015/16).

This follows a strategy of prioritising sewer maintenance and improvements in areas most at risk of flooding.

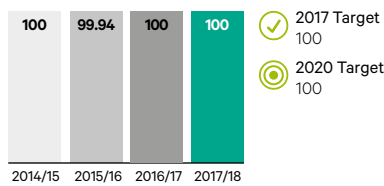
2. External sewer flooding

£+/-



5. Compliance with sludge standards

Rep



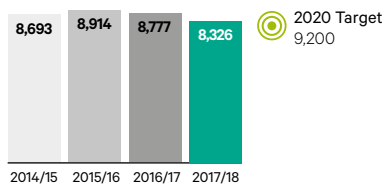
2. External sewer flooding

External sewer floodings have seen a significant reduction in the year, and this has brought the number within our annual target as well as within the targeted number to be achieved by 2020.

Operating model changes within our customer services and networks teams as well as investments in new equipment have helped prevent sewer flooding.

3. Sewer blockages and collapses

KPI



6. Asset reliability

KPI







### 3. Sewer blockages and collapses

Our internal KPI to ensure the number of sewer blockages and collapses is below 9,200 by the end of the five-year regulatory period remains on track with a reduction of more than 5% year on year to 8,326.

As with sewer flooding, blockages and collapses are often caused by the disposal of inappropriate items in the sewer systems. Our campaigns 'Love Your Loo' and 'Think Sink!' have contributed to the reduction in blockages and collapses by encouraging responsible sewer usage.

### 4. Odour contacts

The number of contacts we have received relating to odour issues in respect of our wastewater assets has fallen and was well within our 2017/18 target.

This reduction follows improvements to the primary tanks at the Countess Wear Wastewater Treatment Works in Exeter, significantly reducing the number of contacts concerning the site during periods of dry weather. Other improvements are being targeted to reduce odour impacts at key sites.

### 5. Compliance with sludge standards

South West Water recycles biosolids for use as an organic fertiliser on agricultural land. Biosolids are produced through conventional anaerobic digestion processes, lime treatment systems and composting.

Biosolids recycling is a regulated and closely monitored practice. South West Water continually improves its quality assurance processes to ensure guidance and regulations are fully met.

Operational practices which returned our 2016/17 performance to 100% have been maintained in 2017/18 resulting in continued 100% compliance.

### 6. Asset reliability

Wastewater asset reliability comprises a number of sub-measures in respect of both pipes and processes. These are detailed in table 3B of the Regulatory Reporting section (see page 108).

Each sub-measure has remained within or below its reference level performance throughout the AMP to date and as a result the overall measure is assessed as 'stable'.

OUR PERFORMANCE



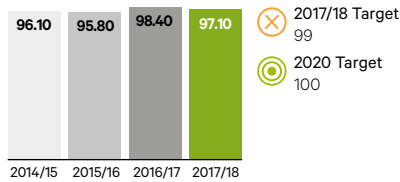
Protecting the environment

Minimising our impact on the world around us and taking steps to protect and enhance it where possible.

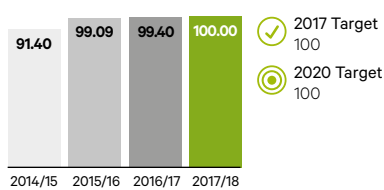
Key Type	Result	Impact
£+/- Financial (penalty or reward)	✓ Met	Low – Low impact
£- Financial (penalty only)	⊙ On target	Mod – Moderate Impact
Rep Reputational	⊗ Not met but no financial penalty	High – High Impact
KPI KPI	✗ Not met	



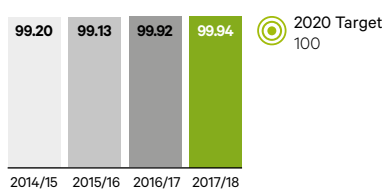
1. Wastewater treatment works numeric compliance



2. Wastewater treatment works descriptive compliance



3. Wastewater treatment works population equivalent sanitary compliance



4. Wastewater pollution incidents

Cat 1&2					⊗ 2017 Target 0
3	7	4	3		⊙ 2020 Target 0
2014/15	2015/16	2016/17	2017/18		
Cat 3&4					⊗ 2017 Target 218
315	222	252	237		⊙ 2020 Target 198
2014/15	2015/16	2016/17	2017/18		

5. Drinking water pollution incidents

Cat 1&2					✓ 2017 Target 0
0	0	0	0		⊙ 2020 Target 0
2014/15	2015/16	2016/17	2017/18		
Cat 3&4					⊗ 2017 Target 2
3	5	9	18		⊙ 2020 Target 2
2014/15	2015/16	2016/17	2017/18		

6. Sustainable abstractions

Number of EA/WFD improvements required					⊙ 2020 Target 0
0	0	0	0		
2014/15	2015/16	2016/17	2017/18		
EA water stress levels					✓ 2017 Target Moderate
Mod	Mod	Mod	Mod		⊙ 2020 Target Moderate
2014/15	2015/16	2016/17	2017/18		

South West Water

1. Wastewater treatment works numeric compliance

Nine out of the 301 sites at which South West Water holds permits which impose numerically measurable conditions upon outflows, were deemed non-compliant by the Environment Agency during the year. This marked a disappointing increase from five during the previous year.

The majority of sites identified as non-compliant were identified during the first half of 2017 at comparatively small wastewater treatment works. South West Water reviewed the reasons for these non-compliances and implemented a series of measures, resulting in a significant reduction in the number of non-compliant sites in the second half of 2017. This has also been sustained into the first half of 2018.

2. Wastewater treatment works descriptive compliance

Compliance at our smaller descriptive permitted sites was 100% for 2017 based upon the sites sampled by the Environment Agency. This follows the investments made during the AMP to increase descriptive compliance, which has resulted in the improving trend in recent years.

3. Wastewater treatment works population equivalent sanitary compliance

Population equivalent sanitary compliance has improved further during the year. This reflects improvements made at our largest sites.



#### 4. Wastewater pollution incidents

Regrettably South West Water failed to meet its targets for preventing wastewater pollution incidents in respect of both the more serious category 1&2 incidents and category 3&4 incidents, though the number of incidents reduced year-on-year for both categories.

Awareness campaigns such as 'Love Your Loo' and 'Think Sink!' continue to deliver positive messages and results. South West Water has also taken specific measures including:

- Additional vehicles and equipment for sewer monitoring and cleaning
- Revised business rules to ensure thorough root cause analysis and sharing of lessons learnt
- Development of the award-winning 'Pollutions Insight Dashboard' for real time views of pumping station performance
- Working closely with local suppliers and universities to develop enhanced network intelligence techniques
- Increased monitoring and maintenance activities, including the use of SewerBATT sonar technology, targeted at hot spot locations for pollutions and flooding

Our external campaigns and internal measures appear to have started to improve performance and we remain committed to reducing wastewater pollution incidents to meet our 2020 targets.

#### 5. Drinking water pollution incidents

In line with our target there were no category 1&2 drinking water incidents during the year, however the number of more minor category 3&4 incidents increased again with 18 such incidents during the year.

These included incidents such as water emerging from burst water mains flowing into water courses. South West Water has launched a training programme for our staff and suppliers supported by the Environment Agency to emphasise both the importance of preventing such incidents and the techniques to be applied to ensure they do not occur, such as appropriately diverting flows from burst mains and utilisation of settlement tanks and where necessary de-chlorination techniques.

#### 6. Sustainable abstractions

We are committed to managing our licensed abstraction activities in an effective and sustainable way, taking care to minimise any impact on the local environment and working closely with the Environment Agency (EA) to ensure this remains the case.

In 2017/18 the EA had not identified any improvements at any of our abstraction sites in respect of sustainability which were not complete at the end of the year.

OUR PERFORMANCE

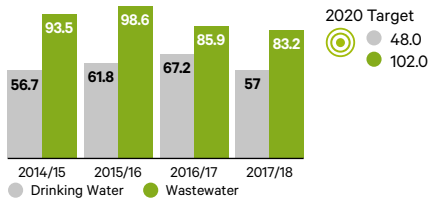


Protecting the environment continued



7. Carbon emissions (ktCO<sub>2</sub>e)

Rep



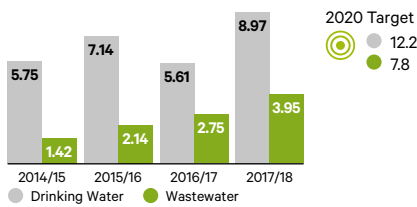
South West Water

7. Carbon emissions

South West Water's carbon emissions reduced in both the drinking water and wastewater areas in the year. South West Water is certified to the ISO 50001:2011 standard, which commits us to continual improvement in respect of energy management. Site audits have been undertaken at large sites and as a result a number of measures have been implemented to reduce energy usage including the sub-metering of assets which use the most energy to help identify opportunities to reduce consumption.

8. Energy from renewable sources (%)

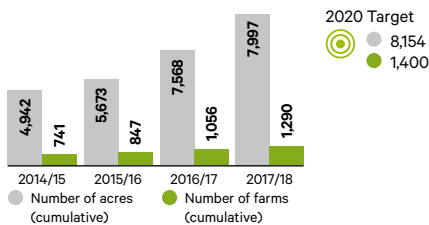
Rep



In addition to internal measures taken, there has been a further reduction in the UK 'electricity grid emissions factor' which is a measure of the carbon emissions required for each unit of electricity purchased from the grid.

9. Catchment management

Rep



South West Water is on track to significantly outperform its 2020 target for carbon emissions on a combined basis. We have and will continue to prioritise projects which provide the biggest overall reduction in emissions. This has resulted in greater reductions in the wastewater business than initially forecast and as a result the individual target for drinking water emissions may not be met.

8. Energy from renewable sources

Energy sourced from renewable sources has increased in both the drinking water and wastewater areas during 2017/18.

The majority of the renewable energy which South West Water sources is self-generated through a combination of hydro power, combined heat and power (CHP), photovoltaic (PV) solar and wind.

In addition to this self-generated energy, South West Water participates in the 'Renewable Energy Guarantees of Origin' (REGO) market purchasing certificates that demonstrate that electricity has been produced from renewable sources.

9. Catchment management

Upstream Thinking is supporting farmers to access capital grant funding in order to make improvements, comply with legislation and reduce the risk of pollution.

Since 2010, South West Water has worked to improve the water quality at 1,290 farms upstream of drinking water reservoirs and river abstractions. It has also restored 7,997 acres (3,236 hectares) of moorland, culm grass and other semi-nature habitats. We are therefore already nearing our 2020 targets for number of farms and area of habitat restored.

Tackling invasive non native species

In 2017, South West Water became the first water company in the UK to appoint a dedicated Invasive Non Native Species Ecologist.

Kate Hills, who has worked for the company as an ecologist and environmental planner since 2008 but has had a long-standing interest in invasive species, took up her new post in November 2017.

Invasive species such as Japanese knotweed and New Zealand pigmy weed are of interest to water companies because they have the potential to cause structural damage to water infrastructure including weirs and treatment works, choke waterways and disrupt native ecosystems. They also create health and safety issues for maintenance and recreation, particularly at reservoirs.



### Key Type

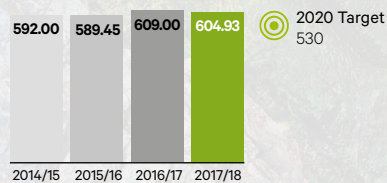
- £+/- Financial (penalty or reward)
- £- Financial (penalty only)
- Rep Reputational
- KPI KPI

### Result

- ✔ Met
- ◎ On target
- ✗ Not met but no financial penalty
- ✗ Not met

## Bournemouth Water

### 10. Energy used in water delivery



£-

## Bournemouth Water

### 10. Energy used in water delivery

South West Water remain committed to reducing the energy used within water delivery in all areas and sites within the Bournemouth area are now included within the ISO 50001:2011 audit programme and measures are being identified to reduce energy usage.

Our 2016/17 performance has been restated from 650.25 to 609.00kwh/ML to ensure consistency with the original methodology on which the 2020 target was based.

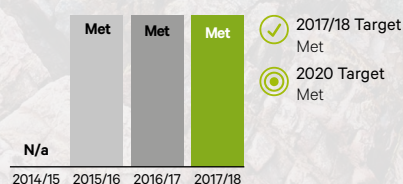
### 11. Supporting a natural environment

In return for taking water from the environment, we give back what we can by promoting biodiversity on our sites and leaving the environment in an improved condition.

We are committed to going above and beyond our statutory obligations and have provided an annual review of environmental projects in the Bournemouth Water area to Natural England and the Environment Agency including progress made and further activities to be undertaken by 2020. This includes statutory Water Industry National Environment Programme (WINEP) work and projects beyond this programme.


As part of our commitment to the environment we have been certified to the most recent ISO 14001:2015 Environmental Management Systems standard, well ahead of the deadline.

### 11. Supporting a natural environment



£-





OUR PERFORMANCE

 **Benefiting the community**





Having a positive long-term effect on the economy, people and quality of life in the region.



**Key Type**


-  Financial (penalty or reward)
-  Financial (penalty only)
-  Reputational
-  KPI

**Result**

-  Met
-  On target
-  Not met but in penalty deadband
-  Not met

**1. Non-compliant bathing waters<sup>(1)</sup>** 

	2015	2016	2017	2020 Target
	0	0	0	0

**2. Total kms of river improved** 

	2015/16	2016/17	2017/18	2020 Target
	62	68	156	650km total <sup>(2)</sup>

**3. Community scorecard** 

	2014 /15	2015 /16	2016 /17	2017 /18	2020 target
RIDDOR incidence rate (nr) (calendar year)	7	7 <sup>(3)</sup>	6	9	0
Number of apprentices	61	85	102	105	100
Employee satisfaction (%)	74	74	69	69	80
Staff productivity (%)	75	77	75	76	80
Staff attendance levels (%)	96.4	97.1	96.4	97	97
Number of training days (nr)	5,707	4,634	7,667	4,230	4,000
Investors in People Standard (grade)	Silver	Silver	Silver	Silver	Silver
Number of volunteer days	151	192	189	81	200
Visitor numbers at recreational sites	1.79m	1.86m	1.96m	1.9m	2.1m
Sponsorship grants to local community (£'000)	74.7	89.0	74.4	98	80

(1) Where failure is allocated to a South West Water asset, 2015 and 2016 performance has been assessed under revised more stringent EU Bathing Water Directive.  
 (2) Total during 2015-20 period.  
 (3) Two further RIDDOR incidents which did not result in injuries occurred in 2015/16, which would now be included in reporting.



## South West Water

### 1. Bathing water quality

Devon and Cornwall's designated bathing waters again performed extremely well against EU water quality standards.

Assessments were made by Defra at 143 designated bathing waters. Across the two counties 140 (97.9%) were rated as 'sufficient' or better, including all of Cornwall's bathing waters. 107 beaches (75.4%) were classed as 'excellent.' The only failures to meet the 'sufficient' standard were at Combe Martin, Instow (which has since been de-designated) and Illfracombe (Wildersmouth) in Devon. None of these failures were attributed to any failure of South West Water's assets.

Bathing water quality can be affected by many factors including rainwater running off roads and roofs, run-off from agricultural land, water company infrastructure, sewage from privately owned treatment works and septic tanks, boats or even animals such as dogs or seabirds on the beach. This can be made worse by heavy rain.

We continue to work alongside partners including local councils, community groups, landowners and conservationists to tackle bathing water quality issues in a holistic and sustainable way.

### 2. River water quality

To protect river water quality and eco-systems we aim to ensure the wastewater we return to the environment is treated to high standards.

During K6 (2015-20) 21 sites have been identified for improvement schemes, most commonly to reduce the levels of phosphorus in treated wastewater.

During 2017/18, South West Water's focus has been to ensure compliance with new and/or tighter permits upon our wastewater treatment works and other assets. Schemes were completed at Fluxton (Ottery St Mary) and Nanstallon.

Significant improvements are planned to be completed between 2018 and 2020 including schemes at Cullompton and further improvements at Menagwins (near Gorran).



All of Cornwall's bathing waters met or exceeded quality standards.

## Joining forces with the Marine Conservation Society

In July 2017 South West Water teamed up with the Marine Conservation Society (MCS) to help promote the 'Love Your Loo' campaign.

Both organisations have been running campaigns to highlight that flushing anything but the '3P's' – pee, poo and paper – down the loo can lead to blocked drains resulting in pollution on beaches and in the sea.

As part of the campaign the Marine Conservation Society brought its giant inflatable 'Wallace the Wet Wipe Monster' to Towan beach in Newquay as part of a joint event.

MCS says the number of wet wipes found on UK beaches has increased by almost 700% over the last decade.



## OUR PERFORMANCE



# Benefiting the community continued

### 3. Community scorecard

South West Water's community scorecard recognises ten further targets for 2020 deemed as important to residents, employees and other interested parties. These are outside of core water and wastewater treatment targets.

#### Health, safety and wellbeing

The health, safety and wellbeing of our employees is paramount and we have rigorous policies, systems and initiatives in place to ensure they return HomeSafe every day. We are committed to reducing the RIDDOR incidence rate to zero.

Recognising its importance, health, safety and wellbeing is the first agenda item for each Board meeting and the Board has added it to South West Water's 'significant areas for assurance' (see the Summary Assurance Report published in July 2018).

The Group-wide 'HomeSafe' programme (launched in 2017) is being implemented within South West Water. It aims to ensure consistent health and safety practice and promote a safe culture of work.

South West Water is working towards rapid certification to the new International Standard ISO 45001:2018 (Occupational Health and Safety) which was published in March. The standard is aligned with the Board's focus on health, safety and wellbeing and requires health and safety to be a core part of business strategy. This certification will require both internal and independent external audit of the Occupational Health and Safety Management System. We anticipate achieving this certification during 2019.

The 'Summary Assurance Report' published before the end of July at [www.southwestwater.co.uk/report2018](http://www.southwestwater.co.uk/report2018) will include further details of our progress.

#### Apprenticeships

We introduced our apprenticeship programme in 2011, which has now grown to see 149 apprentices having been employed by the Company.

The programme plays a key role in the Company's sustainability strategy as we recognise the need to nurture talent for the future and ensure vital skills are retained. Apprentices work across the business from hands-on engineering and operational roles through to information services, communications, contact centre operations, and finance.

Having achieved our 2020 target last year, three years early, we continue to expand our programme and have also now employed many of the apprentices who have completed their apprenticeship programme as permanent employees.

#### Support for our people (including satisfaction, productivity and attendance)

South West Water prides itself on being a responsible and high quality employer.

Employee satisfaction has remained at 69%, whilst productivity and staff attendance levels have both slightly improved. Action plans have been implemented in all areas of the business to improve satisfaction and engagement levels.

We remain committed to a non-discriminatory employment policy, making every reasonable effort to ensure that no current or future employee is disadvantaged because of age, gender, religion, ethnic origin, marital status, sexual orientation or disability.

#### Employee volunteering

South West Water has an active volunteering programme which enables staff to take part in agreed community projects including beach cleans and habitat restoration. The number of volunteer days fell during 2017/18 due to a combination of factors including bad weather and the timing of other business projects.

For 2018/19 South West Water aims to increase employee engagement, through measures such as enhanced internal communications, with the aim of increasing volunteering days.

The South West Water wastewater team also continued to fund Keep Britain Tidy's BeachCare programme, which helps to sustain voluntary beach clean groups across the South West peninsula.

The Company also participated again in the Heritage Open Days initiative and opened to visitors at seven operational sites spread across the region, covering both water and wastewater operations. Additionally, South West Water continued to support the international and industry charity WaterAid through various volunteering events and initiatives.

#### Access and recreation

Our partnership with South West Lakes Trust ensures that our reservoirs are managed for environmental improvements and for the benefit of our customers and communities. During the year we welcomed more than two million people to our recreational estate (across both service areas).

We continue to place a focus on health and wellbeing with 70,000 people benefiting from health giving outdoor activities and 5,000 learning new skills as the trust delivered training workshops in watersports, environmental and heritage education.

#### Sponsorship and donations

In 2017/18 South West Water provided over £98,000 of community sponsorship and donations as part of its business plan.

Using the Business in the Community (BiTC) framework as a guide, which marries core business activities with identified community and social needs, South West Water's main sponsorships continued to be with:

- Devon and Cornwall Wildlife Trusts – in support of their community engagement and educational outreach programmes. Activities included wildlife talks, walks, beach combing, rockpool safaris and school visits to Wembury Marine Centre in Devon
- Surf Life Saving GB – in support of the Nippers & Youth Championships and a three-year Graduate Lifeguard Project programme for young people who will be able to gain a National Vocational Qualification and become a Level 1 Coach at age 16
- The South West Coast Path Association, which takes care of the 630-mile coast path, one of the region's main tourist attractions.

As well as providing community support through its sponsorship programme, South West Water donated to other charities chosen by staff. These principally included: WaterAid, Age UK, the Devon & Cornwall Food Association, the Royal National Lifeboat Institution and the Devon and Cornwall Air Ambulance Trusts.



**Key Type**

- £+/- **Financial** (penalty or reward)
- £- **Financial** (penalty only)
- Rep **Reputational**
- KPI **KPI**

**Result**

- ✓ **Met**
- 🎯 **On target**
- ✗ **Not met but no financial penalty**
- ✗ **Not met**



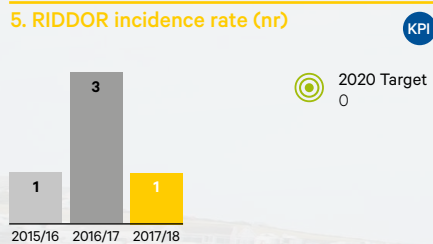
**Bournemouth Water**

**4. Contributing to our community**



Bournemouth Water's 2015-20 business plan committed to achieving 175 days of educational visits to schools and working days for volunteer charity work by 2020. Following the merger between South West Water and Bournemouth Water as well as the opening of the non-household retail market, Bournemouth Water's head office functions were largely relocated to Exeter with fellow group company Pennon Water Services operating from Bournemouth Water's former head office site.

Pennon Water Services staff are not included within the figure for volunteer days. As per the Final Determination, South West Water will mitigate any shortfall in its number of days by contributing to a charity chosen by the Customer View Group.



As a result the number of Bournemouth Water/South West Water staff participating in volunteering schemes in the Bournemouth area has fallen. The Group continues to incorporate activity which has historically occurred in the Bournemouth area in its programme for volunteering. This programme is open for participation by both South West Water operational staff in the Bournemouth area and Pennon Water Services staff.

**5. RIDDOR incidence rate (nr)**

In line with inclusion within the South West Water community scorecard for the RIDDOR incidence rate in the historic South West Water area and the importance placed upon health, safety and wellbeing by the Board, we have added the RIDDOR incidence rate for the Bournemouth Water area as an additional KPI.

In 2017/18 there was one RIDDOR incident, and with the implementation of the Group's 'HomeSafe' programme, we are on track to achieve our target of no RIDDOR incidents in the Bournemouth area by 2020.



OUR PERFORMANCE



Fair charging for all

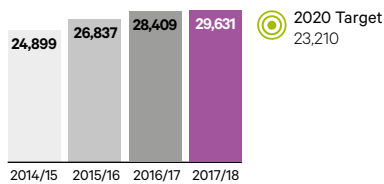
Being efficient in order to keep our costs as low as possible and offering support to those who struggle to pay.

Key Type	Result
£+/- Financial (penalty or reward)	✓ Met
£- Financial (penalty only)	🎯 On target
Rep Reputational	✗ Not met but no financial penalty
KPI KPI	✗ Not met



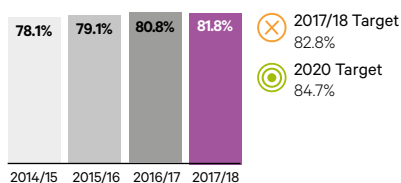
1. Number of customers assisted by water poverty initiatives

Rep



2. Domestic customers paying a metered bill

£-



South West Water

1. Number of customers assisted by water poverty initiatives

We take our social responsibility seriously and whilst we will continue to deliver services as efficiently as possible we recognise that some customers may struggle to pay their bills.

We offer a wide range of assistance measures and work in partnership with trusted third party organisations to reach out to customers who may need help. With Plymouth Citizens Advice we established the Water Debt Gateway, which has supported over 7,000 customers. Plymouth Citizens Advice also administers our Freshstart Fund and our WaterCare tariff. We also work closely with social housing providers, food banks, job centres and children's centres to reach customers who may be nervous about contacting us directly to seek help.

Through the implementation of our WaterCare programme, South West Water was the first water company to introduce affordability measures to help customers. This continues to provide a tariff check, benefit check (realising c.£45/week in additional income for eligible customers), money-saving advice and the fitting of water-efficiency devices in homes.

To date we have provided affordability measures which have helped around 51,000 customers.

2. Domestic customers paying a metered bill

South West Water has some of the highest levels of metering within the industry, which have again risen to see 81.8% of our customers now paying a bill based upon actual usage. This remains slightly below our target for 2020.

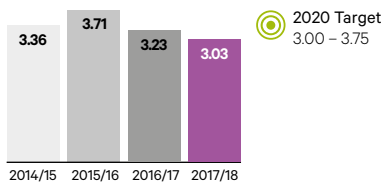
In 2016/17 South West Water's policy was revised to give household customers 24 months instead of 12 months following a meter being installed to decide whether they wish to remain on metered charges going forward. The vast majority of customers opt to remain on meters following this period.

The change to policy led to an increase in excess of the long-term trend in 2016/17, however the increase in 2017/18 has been a more typical 1%.

South West Water will continue to promote meter usage, but it remains a voluntary process and whilst the majority of our customers believe that metering is the fairest way to charge for water and wastewater services, they do not believe that compulsory metering is desirable.



**3. Fair customer bills %**  
(percentage of average bill)



Rep

**Bournemouth Water**

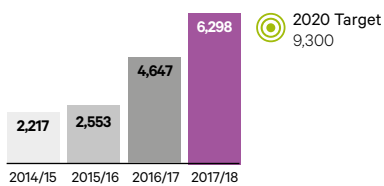
**3. Fair customer bills**

This performance commitment relates to efficient debt management for the benefit of all paying customers in the Bournemouth area which both ensures a very high percentage of debt is collected and that expenditure on debt collection is efficient.

Sound debt practices continue to be used with management experience shared with South West Water. As a result we have been able to reduce costs spent in this area to the lower end of the target whilst maintaining good debt collection performance.

This year we also introduced a social tariff, WaterCare, to help and support our very low income households in the Bournemouth area. Working in partnership with Bournemouth and Poole Citizens Advice and jointly sponsored with Wessex Water, we were pleased to announce an in-house 'Water Guru' within the Citizens Advice who can assist with financial issues regarding water.

**4. Meters installed (cumulative)**



£

**4. Meters installed**

Bournemouth Water's strategy to install 9,300 meters by 2020 has been maintained through customer application and selective metering where an unmetered property is vacated.

We have now installed 6,298 meters and remain on track to achieve the 2020 target.

## OUR PERFORMANCE

# Financial performance

Strong financial policies and prudent investment decisions are critical to ensuring a successful future for our business and the major role we play in the regional economy.

### The non-household market

On 1 April 2017, following an extensive programme of preparations, South West Water successfully entered the non-household market for business (non-household customers) as a wholesaler.

In addition on 1 April 2017, South West Water exited the non-household retail market, selling its customer book to Pennon Water Services (a fellow Pennon Group plc subsidiary company). South West Water ceased providing retail services to non-household customers on this date.

### Revenue

Total revenue<sup>(1)</sup> increased to £572.8m (2016/17: £562.5m including Bournemouth Water) reflecting tariff increases of 2.5% and a small increase in total customer demand of 0.2% in line with the drier weather over the year. This was offset by a reduction of 2.8% relating to the retail revenue from non-household customers.

An additional £36m of revenue was generated by 8,235 new customer connections in the South West region and 1,263 in the Bournemouth Water region.

82% of South West Water's customers are now benefiting from a metered supply, with 6,576 customers opting for a meter in 2017/18. 71% of customers in the Bournemouth Water region are metered with 903 switching in the year.

The Final Determination allowance for Bournemouth Water is shown after the small company premium, which has been passed back to customers through the tariffs as part of South West Water's commitment benefiting customers as a result of the acquisition.

Customer demand has been higher than anticipated; following several years of growth and positive weather impacts a demand reduction was expected. Revenue has also been higher due to developer activity and new connections at higher levels than in prior years.

(1) On a statutory basis.



### Revenue reconciliation

	Water		Wastewater
	Bournemouth Water £m	South West Water £m	£m
Final Determination revenue allowance (outturn prices)	34.6	198.2	266.9
Customer demand and profile	0.9	6.7	11.1
New connection numbers <sup>(2)</sup>	0.5	3.4	(0.1)
Meter optants	–	0.1	0.3
Capitalised requisitions	0.1	0.5	1.7
<b>Actual outturn (see table 2I)</b>	<b>36.1</b>	<b>208.9</b>	<b>279.9</b>

(2) Increased new connections impacting both the water and wastewater revenue as well as increasing revenue for connection and infrastructure charges.

This revenue was above the forecast but less than 6% regulatory tolerance levels and will result in a penalty of £0.8m through the Wholesale Revenue Forecast Incentive Mechanism (WRFIM), see table 2I.

In line with regulatory incentives the additional revenue recovered, driven by increased customer demand and developer activity, will be returned to customers in future tariffs.

## Total expenditure (totex)

In line with operating costs and capital expenditure described on the following page, South West Water's total expenditure for the year has remained below the levels allowed within the 2014 Final Determination.

## Capital expenditure

Capital additions<sup>(1)</sup> for the year were £184.0m compared to £190.9m during 2016/17. The key areas of focus remain:

- improved drinking water quality
- ensuring a high level of bathing water quality
- delivering environmental improvements (including a targeted strategy to reduce pollution incidents)

Key large schemes during the year included:

- the innovative Mayflower Water Treatment Works at North Plymouth with c.£28m of expenditure in 2017/18 (2016/17: c.£27m) and total cumulative expenditure of £60m.
- investment in Plymouth bathing waters, delivering targeted improvements to maintain the high level of bathing water quality in that area
- improvements at three water treatment works including the installation of Granular Activated Carbon 'GAC' filtration improving water quality.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations.

## Operating costs

Operating costs including depreciation for the year<sup>(1)</sup> were £325.7m (2016/17: £328.2m).

The key movements in costs reflect:

- no longer providing non-household retail services (2016/17 costs: £3.9m)
- efficiencies delivered in the year including further efficiencies following the integration of Bournemouth Water
- lower doubtful debt charges

Offset by:

- cost increases (including average inflation of 3.7%).

The underlying increase in operating costs (excluding non-household operating costs) is lower than inflation for the year of 3.7%.

## Wholesale

Consistent with previous regulatory periods South West Water has targeted outperformance in order to maintain the efficient cost position recognised within the 2015-20 Business Plan.

Total expenditure within both water and wastewater is lower than allowed within the 2014 Final Determination as a result of significant capital savings and other efficiencies, including synergies arising from the integration of Bournemouth Water.

The Company has achieved strong efficiencies and cost savings whilst continuing to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations.

In addition in 2015/16, South West Water advanced its pension deficit repair costs covering three financial years, therefore no contributions have been made in 2017/18. Payments will resume in 2018/19.

The key movements in expenditure are summarised below, and include the impact on totex of the timing of capital schemes.

## Wholesale expenditure

	Water £m	Wastewater £m
Final Determination totex allowance <sup>(2)</sup> (2012/13 prices) (including pension deficit recovery payments)	181.2	180.6
Key drivers:		
Capital efficiencies and cost savings	(12.1)	(13.3)
Timing of capital schemes	(2.0)	–
Timing of pension deficit repair costs	(4.3)	(3.5)
Other efficiencies and cost savings	(12.6)	(15.2)
<b>Actual totex (2012/13 prices)</b>	<b>150.2</b>	<b>148.6</b>

<sup>(2)</sup> Includes both South West Water and Bournemouth Water Final Determination allowances.

## Continuing to invest in improving bathing water quality

During the year, South West Water completed a project to improve water quality in the Plymouth Sound and maintain excellent bathing water quality for the city's two beaches.

Significant upgrades were made to infrastructure to further improve and protect water quality in the Plymouth Sound and at Plymouth Hoe East and West beaches.

The investment included improving key stormwater overflows across the city and increasing stormwater storage capacity.

Ultraviolet (UV) disinfection technology was also installed at the Plymouth Central Wastewater Treatment Works – being the largest UV plant of its type for intermittent stormwater overflow discharges in the UK.

# >£20m

Upgrading wastewater infrastructure in Plymouth.

<sup>(1)</sup> On a statutory basis.

## OUR PERFORMANCE

# Financial performance continued

### Retail

Total retail expenditure reduced compared to the prior year due to a number of factors:

- restructuring within Source Contact Management Limited (providers of South West Water retail services)
- continued bad debt management
- synergies in corporate costs and allocations

Driven by strong collections performance and working with customers to manage their debt, the doubtful debt charge as a percentage of revenue fell further this year. Net debts totalling £9.4m (2016/17: £15.2m) were written off against the provision during 2017/18, of which £2.7m related to personal and commercial bankruptcy and £1.1m related to our ReStart programme, a South West Water customer affordability initiative.

Whilst significant improvements were made in the year, further initiatives are planned for the coming year to maintain the doubtful debt improvements.

Customer service improvements, such as an enhanced web offering, including free call backs in a two hour window and the ability for customers to engage with staff in real time via Webchat, have been used to deliver cost efficiencies (in order to offset cost pressures from inflation) and improve the customer experience.

The retail household costs are below those allowed within the 2014 Final Determination. Costs have been reduced as a result of improved performance against the doubtful debt charges and the delivery of operational efficiencies.

### Retail expenditure

	Retail Household £m
Final Determination totex allowance (2012/13 prices)	33.4
Key drivers:	
Bad and doubtful debts	(2.3)
Case management improvements (WaterShare)	0.5
Other cost movements	(2.5)
<b>Actual totex (2012/13 prices)</b>	<b>29.1</b>

### Taxation strategy

South West Water (including both the appointed and non-appointed business) has fully adopted the Pennon Group plc tax strategy. This means that we will

- at all times consider the business's corporate and social responsibilities in relation to its tax affairs
- operate appropriate tax risk governance processes to ensure that policies are applied
- comply with our legal requirements; file all appropriate returns on time and make all tax payments by the due date
- consider all taxes as part of ongoing business decisions
- not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation
- not undertake transactions which are outside the Company's low risk appetite for tax or not in line with the Pennon Group's Code of Conduct
- engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws

The Company's approach to tax planning, risk management and governance is in line with the Finance Act 2016 requirements; the Company does not expect its tax strategy to change significantly year on year, however it is reviewed and updated annually.

Further details are given in the Group's Tax Strategy document which is available on the Pennon Group website.

### Corporation Tax

The total appointee current tax charge for the year was £25.3m (2016/17: £31.3m).

The Company made a net payment of £38.7m of UK corporation tax in the year (2016/17: £31.3m).

The current corporation tax charge which is included within the tax charge, decreased from 2016/17. This reflects a reduction in the standard rate of UK corporation tax and adjustments to the tax charge in respect of prior years, offsetting the increase in profits.

The appointed current tax charge of £25.3m is lower than the charge would have been based on the standard rate of tax applied to the profit for the year (a reconciliation is shown in the tables opposite).

The current tax charge is higher than assumed within the 2014 Final Determination with the key variances noted in the table opposite.

The appointed deferred tax charge of £4.9m for the year primarily relates to timing differences between depreciation and capital allowances.

In respect of the overall appointed current tax charge of £25.3m, £7.0m has been assumed for group relief (relating to current and prior years).

In relation to the taxable profits calculated for 2017/18, South West Water has not disclaimed capital allowances as a means of managing the overall tax charge.

The Company's total tax contribution extends significantly beyond the UK corporation tax charge, including Value Added Tax (VAT), business rates, employment taxes, Carbon Reduction Commitment (CRC), Climate Change Levy and Fuel Excise duty.

## Taxation

	Appointee £m
Final Determination current tax allowance	14.1
Key differences:	
Impact of prior years	(4.5)
Impact of change in taxation rates	(0.7)
Difference in profits	16.7
Depreciation and capital allowance impacts	(2.5)
Pension adjustments	1.8
Finance lease allowances	0.1
Other adjustments	0.3
	<b>25.3</b>

## Current taxation

	Appointee £m
Profit before tax	175.6
Profit before tax multiplied by the standard rate of UK taxation (19%)	33.0
Capital allowances for the year	(21.9)
Depreciation	20.9
Pension adjustments	0.2
Finance lease adjustments	(2.7)
Other adjustments (includes prior year adjustments)	(4.2)
<b>Current tax charge</b>	<b>25.3</b>

## Net finance costs

Net finance costs for the appointed business have increased from the prior year to £70.5m, predominantly reflecting the higher interest on RPI index-linked debt. Aligned with the regulatory accounting guidelines, capitalised interest of £4.0m has been included in the appointee regulated interest charges.

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover for 2017/18 is within the required levels for financial covenants and in line with expectations.

## Dividends and retained earnings

The Company has established a dividend policy, which involves the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholder's investment and the cost of capital
- a further level of growth funded by efficiency outperformance
- comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations.

Payments are designed to ensure that the ability of the appointed business to finance its activities is not impaired. Dividends of £120.3m were paid to the parent undertaking, representing a base dividend of £55.2m and £65.1m of outperformance dividend based on cumulative performance for 2016/17.

The dividend was calculated with reference to the projections in the Ofwat 2014 Final Determination and the assumptions for 2017/18 included within the 2015-20 Business Plan.



## OUR PERFORMANCE

# Financial performance continued

### Liquidity and debt profile

The Company has a strong liquidity and funding position with £226.9m cash and deposits at 31 March 2018 (including £180.4m of restricted funds representing deposits with lessors against lease obligations)<sup>(1)</sup>. In addition the Company has £360m of undrawn facilities. Cash and current asset investments of £223.8m are held within the appointed and £3.2m in the non-appointed business.

The Company's financing structure gives the scope and flexibility needed to implement our strategic objectives and maximise value.

Funding facilities are in place to cover both medium and long-term requirements, including loans from the European Investment Bank (EIB) and finance leasing arrangements. In addition, short-term facilities exist with a range of financial institutions.

At 31 March 2018 the Company's loans and finance lease obligations totalled £2,295.0m. After the £223.8m held in cash deposits this results net debt of £2,071.2m (an increase of £33.3m during the year).

The Company's debt has a maturity of up to 40 years with a weighted average maturity of 23.1 years. The Company has fixed, or put in place swaps to fix the interest rate on at least 50% of its debt for the regulatory period (K6 2015-20).

The Company also has £505.8m of debt index-linked to 2041-2057 at an overall real rate of 1.89%. As a result of these initiatives South West Water's nominal average effective interest rate for 2017/18 is 2.64% (Table 1E).

### Key metrics

South West Water monitors several metrics (including those within the Regulatory Reporting table 4H) as outlined below:

#### Regulatory Capital Value (RCV)

RCV is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review. At 31 March 2018 RCV equalled £3,431.2m and RPI at the year end of 3.3%. The RCV at 31 March 2017 was £3,290.7m.

#### Regulated gearing

The regulated gearing of 60.4% has been calculated as net debt as a proportion of RCV with Ofwat's notional regulated gearing for K6 (2015-2020) set at 62.5%.

#### Post tax return on regulated equity

The post tax return on regulated equity of 11.4% has been calculated as profit after current tax for the appointed business as a percentage of average regulated equity.

#### Dividend yield

The dividend yield of 8.9% is calculated as the total appointed dividend for the year of £120.3m on the regulated equity of £1,360.0m. This compares to a dividend yield of 9.0% for 2016/17 (excluding the £100.0m prior year dividend based upon key balance sheet ratios to align with Ofwat's notional levels).

#### Dividend cover

The dividend is covered 1.2 times and has been calculated as the profits of the appointed business for the year before dividends divided by total appointed dividend for the year.

#### Interest cover

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover of 6.1 for 2017/18 is both within the required levels for financial covenants and in line with expectations.

#### Adjusted interest cover

The low interest rates also result in strong adjusted interest cover of 3.1 for 2017/18. This adjusted interest cover deducts regulatory depreciation (which is defined in the Final Determination) from the funds from operations calculated as covering interest.

### Our performance against the K6 Regulatory Contract (2015-2020)

South West Water performed well during the year. South West Water's Return on Regulated Equity (RoRE) performance continues to be sector leading and is outperforming our business plan with 11.5% delivered in the year (11.1% based on our WaterShare RoRE approach).

RoRE is calculated using actual results before non-underlying items (deflated into 2012/13 real prices) and compared against the Final Determination allowances, based on notional gearing (at 62.5%), annual average RCV and taking into account tax impacts of outperformance. It arises from base returns of 6.0% plus:

- **Total expenditure (totex)** savings and efficiencies, taking into account the phasing of actual expenditure compared to the planned programme within our Business Plan and reduction in the RCV run-off for the RCV element of totex outperformance based on the Final Determination Pay-As-You-Go
- **Outcome Delivery Incentives (ODIs)** reflecting operational performance and net ODI rewards
- **Financing outperformance** reflecting the difference between actual real average interest rate and allowed financing rates.

### WaterShare RoRE

In 2015, and prior to Ofwat's guidance on RoRE, South West Water established an approach to RoRE outperformance consistent with the approach adopted for our innovative WaterShare mechanism. It calculates interest outperformance based on the outturn effective interest rate however this is translated into a real rate using the cumulative forecast RPI over the K6 period – currently forecast at 2.8%. All other elements of RoRE are calculated consistently with Ofwat's approach.

For 2017/18, South West Water achieved a RoRE of 11.1% in line with this approach (2016/17: 12.6%).

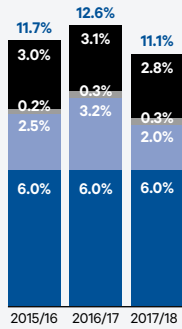
Ofwat guidance to companies requires financing outperformance to be calculated using the in-year average RPI rate of 3.7% (2015/16: 1.1%, 2016/17: 2.1%) to calculate the real effective interest rate. This results in a total RoRE of 12.5% for 2017/18 (2016/17: 11.9%). In addition, the RoRE reported in table 4H of 11.5% is a cumulative average over the first three years of K6 (2015-2020). South West Water's RoRE remains sector leading under this approach.

(1) On a statutory basis.

(2) As table 4H. Regulated equity net of debt.



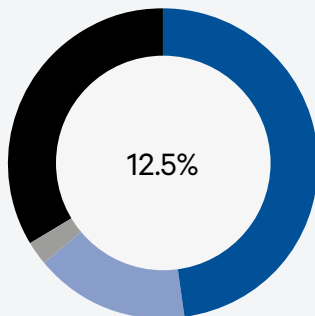
### WaterShare RoRE



- Financing
- ODIs
- Totex
- Base returns<sup>(1)</sup>

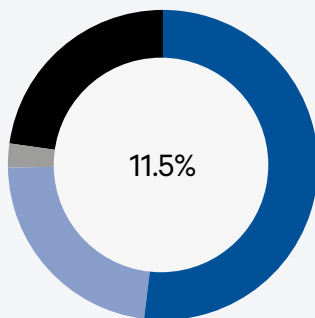
(1) Interest outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using the Fisher equation and cumulative K6 forecast RPI of 2.8%; notional debt gearing of 62.5%, and the headline tax rate.

### RoRE – 2017/18



- Base 6.0%
- Totex 2.0%
- ODIs 0.3%
- Financing<sup>(2)</sup> 4.2%

### RoRE – 2015-20 cumulative



- Base 6.0%
- Totex 2.6%
- ODIs 0.3%
- Financing<sup>(2)</sup> 2.6%

(2) Interest outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using the Fisher equation and average RPI of 3.7% for 2017/18 (2016/17: 2.1%, 2015/16: 1.1%); notional debt gearing of 62.5%, and the headline tax rate for the Company. Tax impacts reflect actual effective tax rates.

### Totex outperformance

South West Water is striving for ever greater efficiency and is confident in maintaining the momentum achieved in K6 to date. South West Water is 'front-end-loading' efficiencies and savings to allow early and more certain delivery of outperformance. As a result £177m of cumulative totex savings to 2017/18 (£49m delivered in the year) compared to the Final Determination allowances have been delivered to date. These savings are driven by:

- continuing advantages from our strategic alliances including a new water distribution framework and the H50 capital alliance now also delivering efficient schemes within the Bournemouth region
- ensuring efficient capital investment through the use of data analytics optimising capital and operating solutions and promoting efficient off-site build techniques
- changing ways of working including utilising new technology and equipment to increase the resources needed to deliver wastewater improvement, real-time pressure and management targeting of efficient interventions
- delivering Bournemouth Water synergies with the c.£27m of synergies targeted over K6 on track and further support function efficiencies.

### Outcome Delivery Incentives (ODIs) reward

South West Water has 23 ODIs and Bournemouth Water has 10 ODIs, which have potential financial rewards or penalties. Incentives for performance are recognised in the year of delivery (for the purposes of this calculation, though not accrued in the financial statements), whether the measure is recovered in period or as a regulatory true-up at the end of the period.

Overall our operational performance is ahead of committed performance levels, resulting in continued net rewards in the ODI mechanism, despite challenges from the cold weather in March 2018.

Operational performance for the full-year resulted in a net ODI reward of £2.6m (£8.1m cumulatively over the first three years of K6), reflecting annual equivalent RoRE outperformance of 0.3% to date.

We maintained good asset reliability and stable serviceability across all water and wastewater areas and received rewards for bathing water quality and water restrictions. Following improvements in internal and external sewer flooding from last year, we received a reward for performance this year.

The cumulative net reward of £8.1m comprises £10.4m of rewards recognised at the end of the regulatory period and £2.3m of net penalty which may be reflected during the regulatory period. Pollution events in wastewater, while improving, continue to be higher than the levels to which we have committed and we are targeting further improvements over the remaining regulatory period.

Net ODI penalties (for the first two years of K6) valued at £2.1m, which apply in the current regulatory period, have been passed back to customers through a reduction to their bills in 2018/19.

### WaterShare mechanism

South West Water has in place a unique WaterShare mechanism to share net benefits with customers through reinvestment options, future bill reductions and service improvements exceeding planned targets.

WaterShare reflects the established mechanism for sharing totex outperformance but also allows customers to share in financing outperformance from movements in the market rates<sup>(3)</sup> for new debt instruments. In addition specific items are also shared with customers - with differing rates depending on the Company delivery.

This unique scheme identified £6.1m of customer benefits during the year, in addition to £4.0m identified in 2016/17. The independent WaterShare customer panel scrutinises our performance against the current business plan and reviews and challenges our recommendations on how any benefits should be shared with customers. It recommended that the £4.0m should be deferred to facilitate investments planned later in the regulatory period. The WaterShare panel will consider how to apply the 2017/18 benefit following customer research later in the year.

(3) Financing outperformance is based on comparing average iBoxx rates, adjusted by RPI of 2.8% and compared to the cost of debt new debt allowance of 2.1%. This is applied to an assumed new debt proportion of 25% and adjusted for the tax impacts. 100% of the benefit is allocated to customers.

# Regulatory Reporting 2018

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## GOVERNANCE

### Introduction

South West Water remains committed to operating its business adhering to the highest standards of corporate governance. We see strong governance as central to the successful management of any company, and the framework for the effective delivery of our own strategy and sustainability objectives.

South West Water is wholly owned by a single company, Pennon Group plc and the Chairman of South West Water (Sir John Parker) is also the Chairman of Pennon Group.

South West Water has appointed a Senior Independent Director (Lord Taylor of Goss Moor) to be available to stakeholders to address any specific concerns they may have relating to South West Water. He is not a Director of Pennon Group plc.

Pennon Group plc also has a Senior Independent Director (Gill Rider) to be available to shareholders and other stakeholders.

In addition to the role of Senior Independent Director, South West Water has two further Executive and two further Non-Executive Directors who are not Directors of Pennon Group. These Directors provide a strong independent voice on the Board and they are available to address South West Water's customer and other stakeholders' concerns if required.

Our governance structure helps ensure we operate effectively and cohesively across the Group with efficient and transparent decision-making while preserving the degree of regulatory independence that Ofwat requires for the ringfenced business of South West Water.

Further information on the approach to Group and South West Water governance is included in pages 31 to 63 of South West Water's Annual Report and Financial Statements.

We describe the governance structures and the respective roles of the Board, its committees and executive management on pages 48 and 49.

Our Board structure is designed to ensure both independence and efficiency of decision making.

### Board independence

Notwithstanding Sir John's chairmanship of Pennon, the South West Water Board believes that he continues to demonstrate independence of character and judgement (of Pennon and its investors, and of management) when leading the Board in debate on South West Water matters.

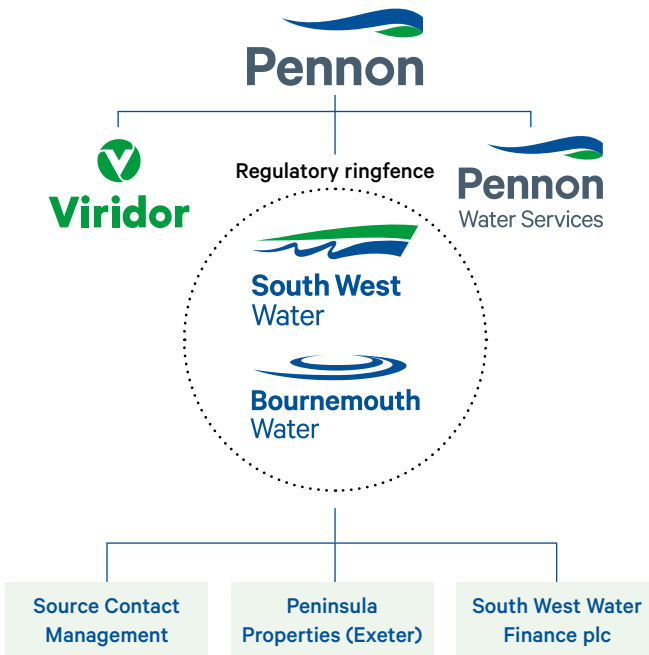
Sir John Parker was considered to be independent at the time of his appointment, in accordance with Provision A.3.1 of the UK Corporate Governance Code ('the Code'). At that time, the Board concluded that none of the criteria set out in Provision B.1.1 of the Code applied to Sir John; although he was appointed to the position of Chairman of Pennon Group plc on the same date, he was not placed on the South West Water Board by Pennon in order to represent Pennon's interests but rather to help the flow of information and foster an understanding of the issues facing South West Water at Pennon board level. The South West Water Board believes that this model worked to South West Water's benefit in the past.

Martin Hagen, Lord Matthew Taylor and Jon Butterworth are South West Water Non-Executive Directors. These Directors provide an independent voice and channel for concerns of stakeholders other than those of Pennon Group plc to be raised if required. During the year, Lord Matthew Taylor was appointed Senior Independent Director for South West Water.

Martin Angle, Neil Cooper and Gill Rider are considered to be independent in character and judgement. They were also appointed to the South West Water Board in order to facilitate the Group's revised governance framework, rather than to represent the interests of the shareholder.

## South West Water's Group context

South West Water Limited is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company, whose principal significant trading subsidiaries are shown below:



Note: this is a summary structure and includes only South West Water's trading subsidiaries. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 16, page 127).

## South West Water

South West Water provides regulated water and wastewater services across Cornwall, Devon and parts of Dorset and Somerset, water services in the Bournemouth Water area of operation (covering areas of Dorset, Hampshire and Wiltshire) in addition to a small number of non-appointed services.

South West Water has been providing water services in the Bournemouth Water area since 1 April 2016 when the operations of Bournemouth Water were merged into South West Water. They are now part of the governance systems and processes described in this section of the report, which apply across the whole Company.

The Bournemouth Water brand has been maintained within the Bournemouth Water area and South West Water ensures that Bournemouth Water customers and other stakeholders' interests are appropriately reflected and represented. The managing director of Bournemouth Water was appointed as Operations Director (Drinking Water Services), a member of the Executive Management (see page 48), following the merger of drinking water operations. A separate customer challenge group (Customer View) continues to operate in the Bournemouth Water area (see page 55).

## South West Water's subsidiaries

**Source Contact Management Limited** manages South West Water's billing, collections and customer contact activities.

**Peninsula Properties (Exeter) Limited** advises South West Water on property development opportunities.

**South West Water Finance plc** acts as a financing company for raising borrowings for South West Water.

## Viridor

Viridor provides waste management services to UK residential and commercial customers including recycling, composting and energy recovery facilities.

## Pennon Water Services

Pennon Water Services has provided retail services to non-household customers following the sale of South West Water's non-household customers and related assets on 1 April 2017.

Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

## South West Water Limited Board of Directors

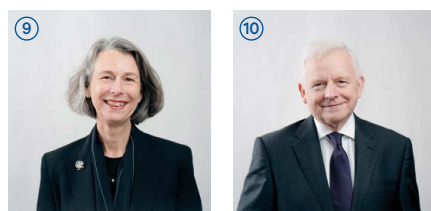
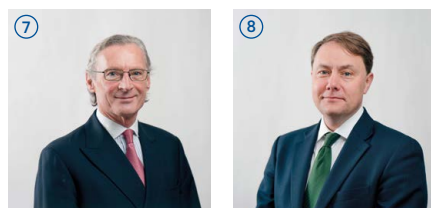
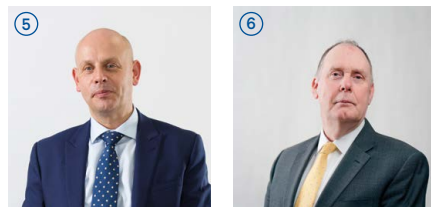
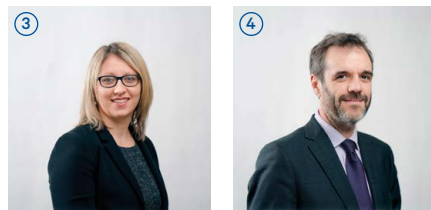
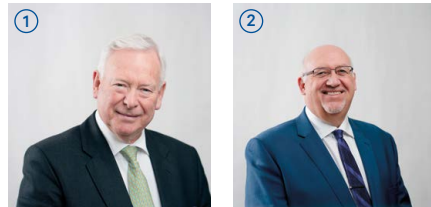
The South West Water Board of Directors at the end of the 2017/18 financial year comprised the Chairman (a Non-Executive Director), two Executive Directors, a Senior Independent Director (a Non-Executive Director), five further Independent Non-Executive Directors and the Pennon Group Chief Executive (a non independent Non-Executive Director).

In addition Susan Davy, Pennon Group Chief Financial Officer and Helen Barrett-Hague, Pennon Group General Counsel and Company Secretary also attend the South West Water Board. The Board considers the Independent Non-Executive Directors to be independent in accordance with the UK Corporate Governance Code. The Board believes its Directors have an appropriate range of skills and experience to oversee the business of the Company.

GOVERNANCE

Experienced, skilled and effective leadership

South West Water Directors



In attendance at the Board



1 – Sir John Parker

Chairman

Appointment

- Appointed to the South West Water Board on 31 July 2015 having been appointed to the Pennon Group plc Board as Deputy Chairman on 1 April 2015
- Chairman of both boards on 1 August 2015.

Relevant skills and experience

- Highly experienced and independent Chairman
- A wealth of leadership experience across a range of industries
- Won the lifetime achievement award at The Sunday Times 2015 Non-Executive Director Awards
- Widely recognised for his policy work on corporate governance, including the value of diversity in the boardroom.

Previous appointments

- Chaired five FTSE100 companies;
- Chairman of National Grid plc
- Senior non-executive director and chair of the Court of the Bank of England.
- Deputy chairman of DP World
- Joint chair of Mondi
- Chair of BVT and P&O plc.
- President of the Royal Academy of Engineering from 2011 to 2014.

Committee membership

N

2 – Dr Stephen Bird

Managing Director

Appointment

- Appointed to the Board on 1 March 2000
- Appointed to the position of Managing Director of South West Water on 1 January 2016.

Relevant skills and experience

- Fellow of the Chartered Institute of Environmental Managers, Fellow of the Institute of Directors and holds an MBA.

Previous appointments

- The Welsh Water Authority, National Rivers Authority
- Wallace Evans Consultants as an environmental consultant.

Committee membership

S

3 – Louise Rowe

Finance Director

Appointment

- Appointed Finance Director on 1 February 2015.

Relevant skills and experience

- With South West Water for over nine years, holding a range of managerial roles in the Finance Directorate prior to her appointment as Finance Director
- Physics graduate
- Qualified chartered accountant with KPMG.

4 – Lord Matthew Taylor

Senior Independent Director (Non-Executive)

Appointment

- Appointed to the South West Water Board on 1 March 2010.
- Appointed as Senior Independent Director on 28 March 2018

Relevant skills and experience

- He has expertise in planning for sustainable communities.

Previous appointments

- MP for Truro and St Austell for 23 years from 1987, until he stood down at the 2010 general election.

Committee membership

S A N

5 – Jon Butterworth MBE

Non-Executive Director

Appointment

- Appointed to the Board on 28 September 2017.

Relevant skills and experience

- Worked in many Construction, Asset and Operational roles as well as running the UK Gas Emergency service
- A wealth of knowledge in Utilities and has held numerous senior positions within the industry
- Awarded an MBE in 2009 for services to Britain's Gas Industry.

Previous appointments

- National Operations Director and Global Director of Safety, Sustainability & Resilience within National Grid Plc.

Committee membership

S

6 – Martin Hagen

Non-Executive Director

Appointment

- Appointed to the Board on 1 September 2010.

Previous appointments

- Deputy Chairman of the Financial Conduct Authority's Regulatory Decisions Committee
- Board member and President of the Institute of Chartered Accountants in England and Wales
- Senior partner of Deloitte's West of England practice.

Committee membership

A N R

Further details (including external appointments of each of the Directors) are included in our Annual Report and Financial Statements (pages 41 to 45).

## 7 – Martin Angle

Non-Executive Director

### Appointment

- Appointed to the Board on 1 April 2016
- Appointed to the Pennon Group plc board on 1 December 2008.

### Relevant skills and experience

- Experienced Non-Executive Director
- Wide range of knowledge and experience from a career in investment banking, private equity and industry
- Over a 20-year executive career in investment banking.

### Previous appointments

- Senior roles at SG Warburg & Co. Ltd
- Morgan Stanley
- Dresdner Kleinwort Benson
- Group Finance Director of TI Group plc, then a FTSE100 company
- Terra Firma Capital Partners where he held various senior roles in its portfolio companies
- Executive chairmanship of the Waste Recycling Group Limited, then a major participant in the UK waste sector
- Le Meridien Hotel Group where he was Executive Deputy Chairman.
- Non-Executive Director
- Savills plc, Senior Independent Director
- National Exhibition Group, Chairman
- Severstal
- Dubai International Capital.

### Committee membership

**R** **A** **N** **S**

## 8 – Neil Cooper

Non-Executive Director

### Appointment

- Appointed to the Board on 1 April 2016
- Joined the Pennon Group plc Board on 1 September 2014.

### Relevant skills and experience

Extensive experience in a wide variety of corporate and financial matters.

### Previous appointments

- Group finance director of Barratt Developments plc
- Group finance director of William Hill plc and Bovis Homes plc
- Senior finance positions at Whitbread plc,
- PricewaterhouseCoopers, a management consultant
- A number of roles with Reckitt & Colman plc.

### Committee membership

**A** **N** **R**

## 9 – Gill Rider

Non-Executive Director

### Appointment

- Appointed to the Board on 1 April 2016
- Appointed to the Pennon Group plc board on 1 September 2012.

### Relevant skills and experience

- Gill has a wealth of experience in leadership, governance and remuneration across a broad range of sectors including professional services, education and government.

### Previous appointments

- Head of the Civil Service Capability Group in the Cabinet Office, reporting to the Cabinet Secretary
- Chief leadership officer Accenture LLP
- President of the Chartered Institute of Personnel and Development
- Non-Executive Director of De La Rue plc.

### Committee membership

**S** **A** **N** **R**

## 10 – Chris Loughlin

Pennon Group Chief Executive Officer  
Non independent Non-Executive Director

### Appointment

- Appointed to the Board on 1 August 2006 as Chief Executive of South West Water
- Became Pennon Group Chief Executive Officer on 1 January 2016.

### Relevant skills and experience

- Extensive experience of the regulated business environment
- Comprehensive understanding of the water industry
- Management of major engineering and infrastructure services
- Chartered engineer working in both the consulting and contracting sectors
- Held a number of senior positions with British Nuclear Fuels plc, joined its board as an executive director.

### Previous appointments

- Chief operating officer with Lloyds Register
- Executive Chairman of Magnox Electric plc
- Senior diplomat in the British Embassy, Tokyo
- Board member (and, for a period, president) of the Institute of Water
- Between April 2008 and March 2012 was chairman of Water UK.

### Committee membership

**S**

## In attendance at the Board

### 11 – Susan Davy

Pennon Group  
Chief Financial Officer

### Relevant skills and experience

- Member of the Pennon board and Pennon Executive
- Graduate qualified chartered accountant with 20 years' experience in the utility sector
- Knowledge of the industry coupled with her financial and regulatory expertise has supported the development of the Group's strategy and her input has been invaluable to the Board in its deliberations.

### Previous appointments

- Finance & Regulatory Director at South West Water between 2007 and 2015, during which time she was responsible for the Company's Business Plan to 2020
- Held a number of other senior finance roles in the water sector
- Head of Regulation and Head of Finance (Wastewater) at Yorkshire Water.

### 12 – Helen Barrett-Hague

Pennon Group  
General Counsel and Company Secretary

### Relevant skills and experience

- Extensive corporate experience including capital raisings, initial public offerings, corporate restructuring, mergers and acquisitions, both in the UK and overseas
- Began her career in private practice before moving in-house.

### Previous appointments

- Positions of increasing responsibility with PA Consulting, Generics Group AG, Aveva Group plc and Alent plc.

## Committee membership key

- |                                    |                               |                                   |
|------------------------------------|-------------------------------|-----------------------------------|
| <b>●</b> Chairman of the Committee | <b>A</b> Audit Committee      | <b>R</b> Remuneration Committee   |
| <b>○</b> Member of the Committee   | <b>N</b> Nomination Committee | <b>S</b> Sustainability Committee |

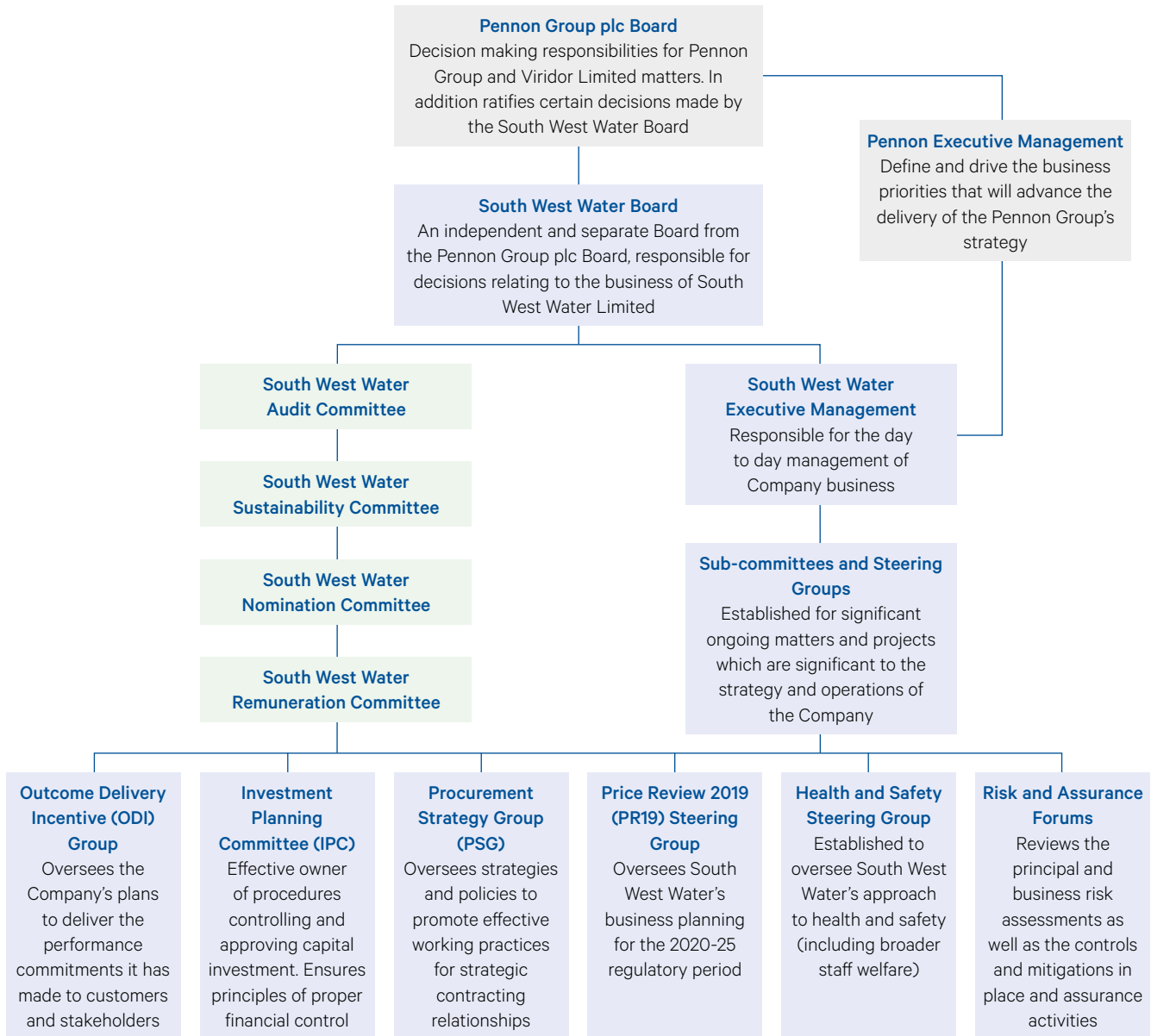


**GOVERNANCE**

**The Board and its governance framework**

**Board structure summary**

The following diagram summarises the context and structure which the South West Water Board operates within aligned with the revised governance approach of Pennon Group plc:





## Pennon Group plc Board

The Pennon Group Board concentrates on strategic matters for all parts of the Group. Its responsibilities include overall leadership of the Pennon Group, setting the Group's values, policies and standards, approving Pennon's strategy and objectives and providing oversight of the Group's operations and its performance. The Pennon Group board has also reserved to itself the requirement to ratify certain decisions taken by the South West Water Board, including:

- major capital projects and investments
- long-term objectives and commercial strategy
- the five-year regulatory business plan
- annual budgets
- certain decisions relating to financing.

This approach is compatible with Ofwat's principles for holding companies in respect of Board leadership, transparency and governance.

## South West Water Board

As a regulated water and sewerage company which is part of the listed Pennon Group, it is important that South West Water acts as a separate company and that the interests of customers and other stakeholders are protected. South West Water's 'Board, Leadership, Transparency and Governance Code' commits it to acting as if it is a separate Public Listed Company as far as is possible.

The South West Water Board continues to operate as a separate independent board in accordance with its own schedule of matters reserved to ensure compliance with Ofwat's principles on board leadership, transparency and governance. As described in more detail on pages 50 to 57 of the South West Water Annual Report and Financial Statements, South West Water itself complies with the UK Corporate Governance Code as far as is possible within the context of the Group structure.

The South West Water board, which includes all of the Pennon Non-Executive Directors as well as three Independent South West Water only Non-Executive Directors, convenes before each Pennon board meeting and considers South West Water strategy, performance and regulatory planning.

In addition to disclosures in this Annual Performance Report, further information on the operations of the Board and Committees are included on pages 41 to 77 of the Annual Report and Financial Statements.

## Pennon Executive Management

The role of the Pennon Executive is to define and drive the business priorities that will achieve delivery of the strategy. It is responsible for ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of Group resources to create and maximise shareholder value whilst protecting the interests of the wider stakeholder group.

Chaired by the Chief Executive Officer, the Pennon Executive meets formally on a monthly basis to review and refine recommendations to be presented to both the Pennon and where applicable the South West Water Boards. Members of the Pennon Executive are:

- Chris Loughlin, Pennon Chief Executive Officer
- Susan Davy, Pennon Chief Financial Officer
- Stephen Bird, Managing Director, South West Water
- Phil Piddington, Managing Director, Viridor
- Helen Barrett-Hague, Pennon Group General Counsel & Company Secretary
- Adele Barker, Pennon Group Director of Human Resources
- Steve Holmes, Pennon Group Director of Health, Safety, Security, Assurance (HSSA)
- Ed Mitchell, Pennon Group Director of Environment and South West Water Operations Director (Wastewater Services)
- Sarah Heald, Pennon Group Director of Corporate Affairs & Investor Relations
- Paul Ringham, Viridor Commercial Director
- Bob Taylor, South West Water Operations Director (Drinking Water Services)

## South West Water Executive Management

Day-to-day management of South West Water's operations and activities is undertaken by South West Water's Executive Management. It includes Dr Stephen Bird (Managing Director) and Louise Rowe (Finance Director), who are also members of South West Water's Board and whose experience is described on page 42. There are six further members of the Executive Management, who have responsibilities for key areas of operations of South West Water:

- Bob Taylor – Operations Director (Drinking Water Services)
- Graham Murphy – Engineering and Supply Chain Director\*
- Iain Vosper – Regulation Director
- Jo Ecroyd – Customer Service Director
- Ed Mitchell – Operations Director (Wastewater Services)
- Kevin Nankivell – Head of IT

Further information on the structure and operations of the South West Water Executive Management and the sub-committees which support the decision making of the business is included on pages 48 and 49.

\* In 2018/19 Graham Murphy will retire following 26 years at South West Water. A recruitment process is underway to appoint a successor as Engineering Director.

## GOVERNANCE

### Operation of the South West Water Board

The Pennon board and the South West Water Board meet sequentially, decisions relating to South West Water are discussed either through individual written reports or where appropriate through separate sections within Group reports or presentations. These are circulated usually in advance of the meetings from the Executive Directors and the Company Secretary on matters within their respective business areas. Where appropriate, the Board also receives presentations on key areas of the business and undertakes site visits to gain a better understanding of the operation of business initiatives.

Under the guidance of the Chairman all matters before the Board are discussed openly and presentations and advice are received frequently from other senior executives within the Company and from external advisors to facilitate the decision making of the Board. The discussions and decisions relating to South West Water are clearly noted within separate Board minutes.

The Chairman and Non-Executive Directors take particular care to ensure that the Board considers the interests of customers in all matters discussed by the Board, reflecting a very real understanding of the particular pressures on South West Water customers. In addition to a monthly review of customer contact and complaint analysis, the Board is regularly updated on customer satisfaction surveys.

South West Water has monitored customer satisfaction with service and value for money quarterly for over 20 years, and has also facilitated focus groups to discuss local and regional investment. Findings from all methods of customer consultation are fed back to the Board and incorporated into Company plans.

### Company and Group compliance with the highest standards of Board leadership and governance

South West Water Limited is a wholly-owned subsidiary of Pennon Group plc, a FTSE 250 company with a premium listing on the Official List, trading on the main market for listed securities of the London Stock Exchange.

South West Water and its parent company Pennon Group plc, remain committed to operating to the highest standards of board leadership and governance including transparency of reporting to investors, customers, regulators and other stakeholders. The full range of South West Water's corporate issues including strategy, performance, delivery, compliance and governance are covered within the governance structure shown above.

In response to, and in accordance with Ofwat's 'Board leadership, transparency and governance – principles' (January 2014) and the timetable for meeting those principles, South West Water adopted its own Board leadership, transparency and governance Code (31 March 2014) which sets out how South West Water complies with the Ofwat principles.

The South West Water Code states that the Company will comply with the UK Corporate Governance Code to the extent that it can be applied to South West Water within the context of the Pennon Group structure. The Company will continue to regularly review its governance structures, ensuring it continues to carry out its business in a transparent way, designed to secure the Company's long-term success and profitability.

### Board membership and attendance

The Directors and their attendance at the nine scheduled meetings of the Board during 2017/18 are as follows:

Board membership		Attendance <sup>(1)</sup>
<b>Chairman</b>		
Sir John Parker	Chairman	9/9
<b>Executive Directors</b>		
Dr Stephen Bird	Managing Director	9/9
Louise Rowe	Finance Director	9/9
<b>Senior Independent Director</b>		
Lord Matthew Taylor	Non-Executive Director	9/9
<b>Non-Executive Directors</b>		
Martin Angle	Non-Executive Director	8/9
Jon Butterworth <sup>(1)</sup>	Non-Executive Director	4/5
Neil Cooper	Non-Executive Director	9/9
Martin Hagen	Non-Executive Director	9/9
Gill Rider	Non-Executive Director	9/9
Chris Loughlin	Non independent Non-Executive Director	9/9
<b>Attendance</b>		
Susan Davy	Group Chief Financial Officer	9/9
Helen Barrett-Hague	Group Counsel & Company Secretary	9/9

(1) Jon Butterworth was appointed on 28 September 2017. Attendance includes only meetings during his appointment.

## Committees of the Board

Aligned with the approach to the South West Water Board, the Audit, Sustainability, Nomination and Remuneration Committees meet sequentially on the same day. This is facilitated by the dual directorships held by a number of Directors and through the attendance of the Pennon Chief Financial Officer at the Audit Committee.

The roles and membership of each committee are summarised below. A comprehensive summary of each committee's role, its membership and attendance as well as key activities undertaken during the year is included in South West Water's Annual Report and Financial Statements.

### The Audit Committee

see more detail page 58-65 of the Annual Report and Financial Statements

The Audit Committee provides a key element of the Company's governance structure.

It ensures that the interests of shareholders, customers and other stakeholders are protected and that responsible business practices are adhered to. The Committee's remit is to achieve compliance with best practice in terms of corporate governance, internal control, risk management and financial reporting, and act as a link between external auditors and Board of Directors.

Members of the Audit Committee:

- Neil Cooper (Chairman)
- Lord Matthew Taylor
- Martin Hagen
- Martin Angle
- Gill Rider

### The Nomination Committee

see more detail page 71-72 of the Annual Report and Financial Statements

The Nomination Committee is responsible for considering and recommending to the Board persons who are appropriate for appointment as Executive and Non-Executive Directors and for other senior management roles, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

This Committee meets to select and recommend appointments to the Board.

Members of the Nomination Committee:

- Sir John Parker (Chairman)
- Lord Matthew Taylor
- Martin Hagen
- Martin Angle
- Neil Cooper
- Gill Rider

### The Sustainability Committee

see more detail page 66-70 of the Annual Report and Financial Statements

The Sustainability Committee is responsible for reviewing the strategies, policies, management and initiatives in the context of how the Company conducts its business in a responsible and sustainable manner.

Sustainability is an integral part of South West Water's strategy and South West Water continues to take its responsibilities very seriously in all its business and operational practices. Our investment and commitment to high levels of service and performance helps us to meet our communities' long-term needs.

Members of the Sustainability Committee:

- Gill Rider (Chairman)
- Stephen Bird
- Lord Matthew Taylor
- Jon Butterworth<sup>(1)</sup>
- Martin Angle
- Chris Loughlin

### The Remuneration Committee

see more detail page 73-74 of the Annual Report and Financial Statements

The Remuneration Committee's principal function is to consider the remuneration of the Company's Directors.

Remuneration of employees other than Executive Directors is considered by Executive Directors and Senior Management. Trade unions recognised by the Company are consulted as part of annual pay review processes. All employees of South West Water are members of a bonus scheme which takes into account Company performance (both financial and non-financial) as well as personal performance.

The Remuneration Committee is also responsible for setting the remuneration policy and reviewing the link between Directors performance and remuneration. The comprehensive remuneration report is included in the South West Water Annual Report and Financial Statements on pages 64 to 93.

Members of the Remuneration Committee:

- Martin Angle (Chairman)
- Neil Cooper
- Martin Hagen
- Gill Rider

(1) Jon Butterworth was appointed on 28 September 2017.

## GOVERNANCE

### South West Water's Executive Management

The Managing Director, Dr Stephen Bird, is responsible for all of South West Water's executive matters.

Day to day management of South West Water's operations and activities is undertaken by South West Water's Executive Management, which comprises seven members and operates under the direction and authority of the Managing Director. The team comprises a mixture of both Executive Directors and six other operational leaders, each of whom brings extensive skills and expertise relevant to their area of

responsibility. Collectively South West Water's Executive Management is responsible for delivering operational and financial performance in line with the Board's strategic direction.

The team includes Dr Stephen Bird (Managing Director) and Louise Rowe (Finance Director), who are also members of South West Water's Board and whose experience is described on page 42. The six other members of the Executive Management, who have responsibility for key areas of operations of South West Water, are shown below:



**Bob Taylor**  
Operations Director  
(Drinking Water Services)

Bob joined South West Water's Executive Management on 1 January 2016.

He was Managing Director of Bournemouth Water from April 2015 until the merger of its operations into South West Water in April 2016, having previously served as Bournemouth Water's Operations Director as well as a number of senior roles within Sembcorp.

He has previously held a wide number of Managing Director and other senior positions within both UK and overseas water and utility companies.

Bob has Masters degrees in both Public Health Engineering and in Business Administration.

He is a fellow of the Institution of Civil Engineers, CIWEM and the Institute of Directors.



**Graham Murphy**  
Engineering and Supply Chain Director

Graham joined South West Water in 1991 and has held a number of managerial roles across the business.

He is now responsible for the delivery of the Company's capital investment programme (including the new Mayflower Treatment Works) and the development of the capital maintenance and supply and demand elements of the business plan.

Prior to working at South West Water, Graham held a number of posts within British Gas.

He is a Chartered member of the Institution of Personnel and Development as well as the Institution of Gas Engineers and Management and has a Masters in Business Administration.

During 2018/19 Graham Murphy will retire following 26 years at South West Water. A recruitment process is underway to appoint a successor as Engineering Director.



**Iain Vosper**  
Regulation Director

Iain is a Chartered Accountant who joined South West Water in 2008 following both audit and senior financial roles.

He has held a range of financial and operational managerial roles within South West Water.

He was Programme Manager for the 2014 price review, when South West Water's business plan for 2015-20 was recognised as one of only two in the UK water industry with 'enhanced status' by the industry regulator, Ofwat.

Iain is responsible for compliance with regulatory and environmental obligations and for the asset management strategy and our new Wholesale Service Desk, which interacts with water retail companies in the newly established non-household market.



**Jo Ecroyd**  
Customer Service Director

Jo joined South West Water in 2006 as Service Centre Manager and has held a variety of customer service and service improvement focused roles.

In October 2016 she was promoted to Customer Service Director, joining the Executive Management.

She has overall responsibility for retail services provided to South West Water's household customers, as well as for all operational customer service interactions with household customers.



**Ed Mitchell**  
Operations Director  
(Wastewater Services)

Ed Mitchell joined Pennon Group Plc as Director of Environment in April 2017. He was permanently appointed South West Water's Operations Director (Wastewater Services) during the year.

Ed was previously involved in South West Water's Customer Challenge Group and Pennon's Conservation and Recreation Forum. He brings with him a wealth of experience, having spent eight years at the Environment Agency. Prior to this Ed held senior positions at Thames Water and the Department of Environment, Food and Rural Affairs.

He sits as a Non-Executive Director of Water and Sanitation for the Urban Poor, a not-for-profit company he helped set up, which provides water, sanitation and hygiene services to people living in slums in the developing world.



**Kevin Nankivell**  
Head of IT

During the year, Kevin joined the South West Water Executive following his appointment as Pennon Group Head of IT in October 2016.

Prior to his current role, he has performed a variety of IT-related management roles within South West Water since 1998.

His appointment reflects the increasing importance of Information Technology to South West Water and in particular Information Security.

The Executive Management have established a number of sub-groups and committees to oversee core strategic priorities and specific areas of governance requiring regular focus and attention. The key groups and sub-committees are detailed below:

#### Outcome Delivery Incentive (ODI) Group

Following extensive customer and other stakeholder consultation during the 2014 periodic review, performance commitments were identified against key customer priority areas. Each of these performance commitments is incentivised under the current regulatory framework with either financial or reputational incentives (Outcome Delivery Incentives).

This group has been established to oversee South West Water's plans to deliver the commitments it has made to customers and stakeholders over the 2015-20 period.

It meets monthly and includes members of the Executive Management and relevant Senior Managers responsible for the delivery of South West Water's performance commitments.

#### Investment Planning Committee (IPC)

South West Water's Investment Planning Committee (IPC) is responsible for South West Water's Investment Planning and Control procedures which control the way capital investment is decided and approved, including all project expenditure approvals. The purpose of the procedures is to ensure that the principles of proper financial control are applied throughout the inception, evaluation, implementation and handover of the investment being considered.

The Committee operates under a structured delegation of authority. Certain investments require direct approval of the Board.

The IPC comprises all members of South West Water's Executive Management as well as a number of Senior Managers drawn from South West Water's Drinking Water and Waste Water Operations as well as Engineering and Finance teams.

#### Procurement Strategy Group (PSG)

The role of the Group is to develop and maintain strategies and policies to promote effective working practices in relation to South West Water's strategic contracting relationships.

The role of this group includes developing the overarching governance framework for the procurement of goods and services, planning for and monitoring procurement and contracting approaches, and reviewing recommendations for the award of strategic contracts prior to other required approvals in line with delegated authority limits.

Its responsibilities also include considering any interdependencies and potential impact on other contracts as well as compliance with EU procurement legislation and the promotion of sustainable procurement.

A Group level contract strategy body is being established.

#### Health and Safety Steering Group (HSSG)

The Health and Safety Steering Group, chaired by South West Water's Managing Director, meets on a quarterly basis.

The group oversees South West Water's approach to health, safety and staff welfare and receives quarterly presentations from each operational area of the business (such as Drinking Water, Wastewater and Retail) regarding performance in the preceding quarter.

The group also reviews the effectiveness of ongoing initiatives (such as 'Quest,' 'Think, Act, Prevent,' and 'Hang On A Sec') and performs more detailed hazard reviews.

The group also monitors health and safety procedures in place within, as well as performance of our key strategic partners.

It feeds into a Pennon Group level equivalent. Health and safety is also the first item on each Board agenda.

#### Risk and Assurance Forums

South West Water's Risk and Assurance Forums meet on a quarterly basis to review both principal and business risks with management justifying their risk assessments through formal reports and presentations. These forums consider risks on a cyclical basis as well as when there are significant events or circumstances which have resulted in a risk significantly changing.

The forums also receive reports concerning assurance being performed in line with South West Water's integrated assurance framework. In particular updates are received at each forum by the Group Internal Audit Manager and South West Water's internal Risk and Compliance function.

South West Water's Managing Director, Finance Director and Regulatory Director and the Pennon Group Internal Audit Manager attend all forums, with other members of the Executive Management and Senior Management attending when relevant risks and assurance work is being considered.

The South West Water forums feed into Pennon Group Risk Forums, chaired by the Pennon Group Chief Financial Officer, which consider and oversee risk management across the group.

#### Significant project governance

South West Water also establishes project steering groups for projects which are significant to the strategy and operations of the business and which require significant levels of oversight. During 2017/18 project steering groups were operating for the following key projects:

- **Price Review 2019 (PR19)** – This project steering group was established in 2016/17 to oversee South West Water's preparations, planning and delivery of its business plan for the 2020-25 regulatory period.

Each of the project groups established includes all relevant members of the Executive Management and meets on a monthly basis, receiving status reports from those managing and delivering the projects.



## ASSURANCE

### Introduction


This assurance section of the Annual Performance Report provides a general overview of our assurance framework and processes as well as an update upon the assurance performed in respect of the Annual Performance Report and Regulatory Reporting. It complements South West Water's Summary Assurance Report (incorporating our full Data Assurance Summary).

The Summary Assurance Report (available at [www.southwestwater.co.uk/report2018](http://www.southwestwater.co.uk/report2018)) which provides an update in respect of all significant areas for assurance identified in our Assurance Plan (available at [www.southwestwater.co.uk/assuranceplan2018](http://www.southwestwater.co.uk/assuranceplan2018)).

### South West Water's integrated assurance framework

South West Water's risk and assurance processes are embedded into the management of the Company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite. The methodology for identification and mitigation of risk is similar at individual business unit and corporate levels.

South West Water's integrated assurance plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:



This Assurance section provides an update on assurance in respect of the Annual Performance Report and Regulatory Reporting. South West Water's full Summary Assurance Report will be published at the end of July 2018.

Visit: [www.southwestwater.co.uk/report2018](http://www.southwestwater.co.uk/report2018)



This risk-based integrated assurance framework is applied to all areas of the business, including all key projects as they arise. The mix of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring robust and comprehensive assurance frameworks are in place to support Board assurance and compliance requirements.

In any significant area or projects where assurance is required over submitted data or information, certificates will be prepared by those responsible to confirm that the submission is robust and all material issues have been addressed.

Independent internal review is used to ensure that processes are robust and adhered to.

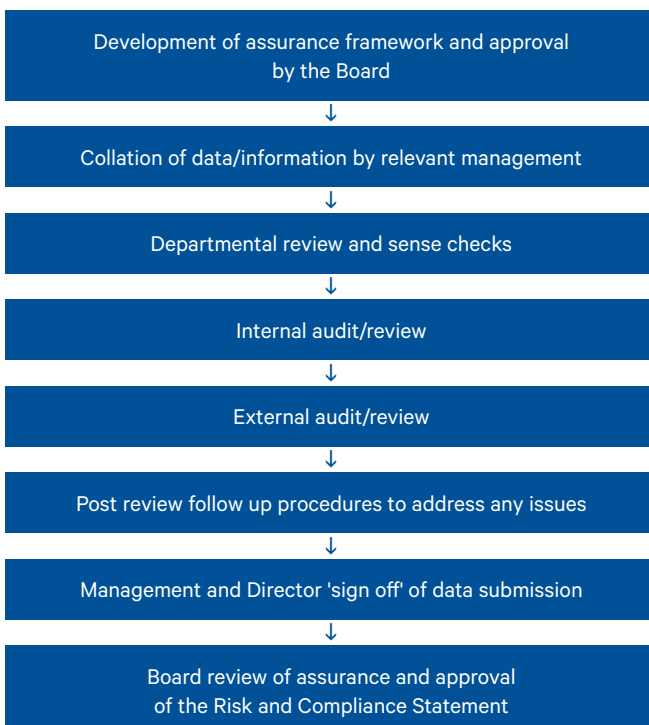
External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the PR14 business plan, tariffs/charges submissions and Company Annual Performance and Regulatory Reporting). The allocation of assurance work between external providers (including financial and technical auditors) is based upon the content of the data submission and multiple providers of external assurance are frequently engaged on the same project. The professional credentials of the third party assurance providers are considered in detail to ensure they have the relevant knowledge and experience.

Robust feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are followed up to ensure that any changes required or follow up work is completed as appropriate.

In addition to strategic leadership provided by the Board, for significant projects a Steering Group is formed to give direction, monitor project delivery and issue regular updates to the Board. The Board and Audit Committee review and challenge assurance applied in each case under this framework.

For all key projects and data submissions the Board confirm in their opinion that assurance provision, governance and internal systems of control have been sufficient.

The following diagram summarises the typical assurance approach taken in any significant project involving submission of data externally:



## South West Water – integrated assurance framework in practice: Annual Performance Report and Regulatory Reporting

South West Water has applied its integrated assurance framework to the information contained within this Annual Performance Report and Regulatory Reporting.

### Annual Performance Report

All performance data contained within the Annual Performance Report and narrative statements are provided by relevant departments within South West Water and are reviewed by relevant management. A full verification of data provided, ensuring it is supported by underlying information is then carried out centrally.

The technical auditor, Jacobs, has reviewed information contained within the Annual Performance Report having been provided with all methodologies and procedures supporting information reported. The technical auditor has access to all management who have prepared data contained within the Annual Performance Report, including (but not limited to) meetings arranged following the year end with all such management and the technical auditor. The technical auditor vigorously challenges the Company's data and methodologies where appropriate and coordinates work with South West Water's financial auditor, Ernst & Young LLP (EY). A summary of the assurance provided by Jacobs is included on pages 83 to 84.

EY review the Annual Performance Report to validate that it is consistent with information included within the Regulatory Reporting section.

### Regulatory Reporting

All tables and associated commentary within the Regulatory Reporting section are subject to audit procedures or agreed upon procedures performed either by the financial auditor, EY, or the technical auditor, Jacobs. Responsibilities for completing tables and associated commentary are delegated to the relevant management, whose information and commentary is provided to the auditors and the relevant management are available for audit. EY's audit of the Regulatory Reporting covering tables 1A to 2J (excluding table 1F) provides an opinion that it is fairly presented and has been properly prepared in accordance with the relevant guidelines, regulation and Company policies.

EY's report is included on pages 78 to 81. This report includes a more detailed description of the scope of their audit. In addition to the audit performed, EY were engaged by South West Water to perform additional 'agreed upon procedures' in respect of table 1F and tables within section 4, ensuring certain calculations and allocations were correct and supported with comprehensive methodologies.

Management providing data and commentary (whether for the Annual Performance Report or Regulatory Reporting sections) provide an explicit sign off to confirm data and commentary provided is accurate and complete utilising all available information. Similar sign-offs are provided by those involved in the validation process.

Similar processes have been performed with regards to both the Annual Report and Financial Statements and information relating to South West Water contained within the Pennon Group Annual Report.

## ASSURANCE

### Regulatory Reporting

For 2017/18, additional tables 4J to 4W have been included within the published Regulatory Reporting. Most of these had previously been submitted as unpublished submissions to Ofwat (allowing them to produce econometric models which predict efficient cost profiles across the industry). We had included these within the scope of the Regulatory Reporting significant assurance area last year and continue to do so. Last year we used a separate financial assurance provider to assure the cost assessment tables, however to ensure consistency of data and thorough audit process, EY are now used across all financial tables within the Regulatory Reporting.

### Results of the assurance process

The assurance process has not identified any significant deficiencies or inaccuracies in the information reported within the Annual Performance Report and Regulatory Reporting. EY's independent report to Ofwat and the Directors of South West Water is shown on pages 80 to 81. Jacobs' report is shown on pages 82 to 84. There are no additional matters reported to management by EY or by Jacobs which would indicate weaknesses or deficiencies in the process of collating, validating or reporting of information contained within the Annual Performance Report and Regulatory Reporting.

## Summary of external assurance in respect of the Annual Performance Report and Regulatory Reporting

Section 1		External assurer	Type of assurance	External assurance summary
<b>1A</b>	Income Statement	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>1B</b>	Statement of comprehensive income	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>1C</b>	Statement of financial position	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>1D</b>	Statement of cash flows	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>1E</b>	Net debt analysis at 31 March 2018	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>1F</b>	Cumulative Financial Flows for the 3 years ended 31 March 2018	EY	Financial agreed upon procedures	Page 85

Section 2		External assurer	Type of assurance	External assurance summary
<b>2A</b>	Segmental income statement	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2B</b>	Totex analysis – wholesale water and wastewater	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2C</b>	Operating cost analysis – retail	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2D</b>	Historical cost analysis of fixed assets wholesale and retail	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2E</b>	Analysis of capital contributions and land sales – wholesale	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2F</b>	Household – revenues by customer type <sup>(1)</sup>	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2G</b>	Non-household water – revenues by customer type	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2H</b>	Non-household wastewater – revenues by customer type	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2I</b>	Revenue analysis & wholesale control reconciliation <sup>(1)</sup>	EY	Regulatory Audit Opinion	Pages 78 to 81
<b>2J</b>	Infrastructure network reinforcement costs	EY	Regulatory Audit Opinion	Pages 78 to 81



## Summary of External Assurance in respect of the Annual Performance Report and Regulatory Reporting continued

Section 3		External assurer	Type of assurance	External assurance summary
<b>3A</b>	Outcome performance table <sup>(1)</sup>	Jacobs <sup>(4)</sup>	Regulatory Audit Opinion	Pages 78 to 81
<b>3B</b>	Sub-measure performance table <sup>(1)</sup>	Jacobs	Regulatory Audit Opinion	Pages 78 to 81
<b>3C</b>	AIM table <sup>(2)</sup>	Jacobs <sup>(2)</sup>	Regulatory Audit Opinion	Pages 78 to 81
<b>3D</b>	SIM table <sup>(1)</sup>	Jacobs	Regulatory Audit Opinion	Pages 78 to 81
<b>3S</b>	Shadow reporting tables <sup>(3)</sup>	Jacobs	Regulatory Audit Opinion	Pages 78 to 81

Section 4		External assurer	Type of assurance	External assurance summary
<b>4A</b>	Non-financial information <sup>(1)</sup>	Jacobs	Technical audit – agreed upon procedures	Pages 82 to 84
<b>4B</b>	Wholesale totex analysis	EY	Financial agreed upon procedures	Page 85
<b>4C</b>	Forecast impact of performance on RCV	EY	Financial agreed upon procedures	Page 85
<b>4D</b>	Wholesale totex analysis – water	EY <sup>(5)</sup>	Financial agreed upon procedures	Page 85
<b>4E</b>	Wholesale totex analysis – wastewater	EY <sup>(5)</sup>	Financial agreed upon procedures	Page 85
<b>4F</b>	Operating cost analysis – household retail	EY	Financial agreed upon procedures	Page 85
<b>4G</b>	Wholesale current cost financial performance	EY	Financial agreed upon procedures	Page 85
<b>4H</b>	Financial metrics	EY	Financial agreed upon procedures	Page 85
<b>4I</b>	Financial derivatives	EY	Financial agreed upon procedures	Page 85
<b>4J – 4W</b>	Cost assessment tables	EY Jacobs	Financial agreed upon procedures Technical audit – agreed upon procedures	Page 85 Pages 82 to 84

Other Annual Performance Report information		External assurer	Type of assurance	External assurance summary
<b>A</b>	Long-term resilience & viability statement	EY	Financial agreed upon procedures <sup>(6)</sup>	Page 85
<b>B</b>	Technical operational performance data included within pages 8 to 30	Jacobs	Technical audit – agreed upon procedures	Pages 82 to 84
<b>C</b>	Risk and Compliance Statement	Jacobs	Specific review and report on the Risk and Compliance Statement (memorandum published at <a href="http://www.southwestwater.co.uk/report2018">www.southwestwater.co.uk/report2018</a> )	See <a href="http://www.southwestwater.co.uk/report2018">www.southwestwater.co.uk/report2018</a>

(1) Including both the South West Water and Bournemouth Water tables.

(2) The Abstraction Incentive Mechanism (AIM) table is not applicable to South West Water. The technical auditor, Jacobs, has reviewed this assessment.

(3) The Shadow Reporting tables have been reported to Ofwat and not published.

(4) Two of the Bournemouth Water performance commitments, relating to financial data, are covered under EY's agreed-upon-procedures (see report on page 85).

(5) Unit cost metrics information on pages 115 and 117 are based upon non-financial information included within the scope of Jacobs's technical audit – agreed upon procedures. The calculations based upon this non-financial information is within the scope of EY's financial agreed upon procedures.

(6) In addition to statutory audit requirements.



## ASSURANCE

### WaterShare Panel/WaterFuture Customer Panel

The WaterShare Panel was created in 2013 to provide independent review and challenge on all areas of South West Water's performance which impacts on the Company's innovative WaterShare scorecard.

The main purpose of the WaterShare Panel is to protect the interest of customers by providing independent review of the operation of the performance sharing mechanism 'WaterShare' to ensure that its application and scope is consistent with the approach set out in South West Water's 'WaterShare Guide'. The Panel reviews the Company's approach to sharing customer benefit and the timing of sharing any net gain.

The Panel has overseen the successful operation of WaterShare for the first three years of the current regulatory cycle with accrued benefits to customers totalling £79m.

Customer	WaterShare	Shareholder
Cumulative to 2017/18 £m		Cumulative to 2017/18 £m
58	<b>Net totex savings</b>	74
8	<b>ODIs</b>	8
13	<b>Other items<sup>(1)</sup></b>	-
<b>79</b>	<b>Total Value Benefit</b>	<b>82</b>

The WaterShare Panel is satisfied that South West Water has been open and transparent, listened and fully responded to the challenges put forward by the WaterShare Panel and that the operation of the WaterShare mechanism has been appropriate. Performance has been transparently reported with benefits being passed back to customers in accordance with customer wishes as evidenced through customer research.

Benefits to date have been passed back to customers through a mix of bill reductions, reinvestment in improvements in services and deferring some benefits for future pass back.

In addition to the scrutiny the Panel undertakes on behalf of customers for WaterShare performance, the Panel also provides independent challenge and assurance to Ofwat on how well South West Water has engaged with its customers and how it has used customer views to drive decision making which is reflected in the Company's plan for future services.

Minutes of all of our meetings are recorded and published for customers to see. For more information see [www.southwestwater.co.uk/waterfuture](http://www.southwestwater.co.uk/waterfuture). We are constantly seeking feedback from customers to ensure the challenges we are making align with their interests and would welcome any comments on the Company's performance of plan for the future.

#### Nick Buckland OBE

Chair of the WaterShare Panel  
and WaterFuture Customer Panel



(1) Other items include sharing market movements on new financing voluntarily returned to customers and the impact of new legislation.

## Customer View Group

The Bournemouth Water Customer View Group is an independently chaired body created to provide active challenge and dialogue regarding the Company's delivery of the performance targets set for the period 2020-2025. As Chair of the Customer View Group I ensure that the group meets four times each year and, comprising local customer and business representatives, along with industry regulators, deliver on the key objectives outlined within our terms of reference.

The merger of Bournemouth Water operations into South West Water has now been fully embedded, with the Customer View Group noting that both Bournemouth Water and South West Water customers are benefiting from the merger through sharing of best practice and increased efficiency cost savings as a result. Indeed, both Bournemouth Water and South West Water have achieved their best ever customer service performance over this period, and are forecast to hit each of their targets for 2020.

As the independent Chair, I am pleased to report my satisfaction with the level of openness and transparency from the Company in providing any information or data required. Alongside this, I would like to note the responsiveness of the Company in responding to the challenges raised by the Group.

We have published our terms of reference and the minutes of our meetings online for our customers to see. For more information visit: <http://www.bournemouthwater.co.uk/company-information/economic-regulation/business-plan-and-performance-commitment/2015-2020home/holding-us-to-account.aspx>.



**Richard Lacey**

Chair of the Customer View Group



## ASSURANCE

### Ofwat's company monitoring framework

#### What is the company monitoring framework?

The water industry regulator, Ofwat, introduced a 'company monitoring framework' as a tool to oversee that customers and other stakeholders can have confidence in the information that water companies report. The framework covers both data assurance activities and wider assurance that companies perform to demonstrate they are listening to customers and other stakeholders and delivering services customers want and can afford.

Companies are assessed in one of three categories, 'self assurance', 'targeted assurance' or 'prescribed assurance', which determine additional requirements that are required by companies to ensure trust and confidence is maintained for customers and other stakeholders.

#### The November 2017 assessment

In November 2017, following Ofwat's assessment of the 2016/17 reporting cycle, South West Water was classified within the 'targeted assurance' as it had been at the November 2016 assessment.

We were disappointed with this classification, having previously been classified within the 'self assurance' category in 2015, with discretion to deliver self assurance in relation to any additional assurance arrangements beyond base requirements.

The November 2017 assessment considered South West Water's performance against a number of specific areas. Ofwat did not identify any areas where it had 'serious' concerns in respect of South West Water's reporting of performance and we exceeded expectations in respect of the Assurance Plan (available at [www.southwestwater.co.uk](http://www.southwestwater.co.uk)). In respect of the six other measures, including our 2016/17 assurance summary, South West Water was assessed as having met Ofwat's expectations.

South West Water met expectations in the two areas which Ofwat raised minor concerns over in its 2016 assessment (relating to 2015/16 outcome reporting in Bournemouth Water and the disclosure of our governance structures and processes). Improvements we made in respect of those concerns were summarised in the 2016/17 Summary Assurance Report.

### Improvements identified

Although no specific concerns were identified by Ofwat, a number of areas were identified where improvements could be made to ensure best practice was achieved. South West Water has also identified further improvements which were implemented in 2017/18.

Key improvements made relevant to the confidence in the information that we report include:

- updates to our website, including key landing pages such as in respect of tariffs and charges and annual reporting, to more clearly signpost relevant information and reports
- further enhancements to the description of our governance in our annual reporting, and the appointment of a South West Water Senior Independent Director
- refinement following review of our Risk and Compliance Statement (contained within our Annual Performance Report and Regulatory Reporting) particularly in respect of management and review of risks
- publication of the detailed performance data in respect of the submeasures which underlie a number of our performance commitments (in 2016/17 we simply summarised whether they were met or not met)
- further refinement of our Annual Performance Report and Summary Performance Report to ensure it is as easy to understand and navigate as possible
- publication of a report from South West Water's Water Future Panel providing an independent opinion to customers and other stakeholders (as already occurs in the Bournemouth Water area)
- expanding the detail within the Summary Assurance Report on the procedures adopted in and the results of each significant piece of assurance.

South West Water has implemented further consistency checking and validation processes for its 2017/18 reporting (including but not limited to external validation of versions submitted).

We have also combined the external financial assurance we obtained in respect of cost assessment tables with the statutory audit of the financial statements and regulatory reporting to ensure consistency. This had previously been provided by separate external assurance providers.



South West Water's full Summary Assurance Report will be published at the end of July 2018.

Visit:  
[www.southwestwater.co.uk/report2018](http://www.southwestwater.co.uk/report2018)

## RISK AND COMPLIANCE STATEMENT

### Governance

The 2017/18 South West Water Annual Performance Report and Regulatory Reporting highlights Company performance for the third year of the five-year 'K6' regulatory period (2015 to 2020).

The Outcome Delivery Incentives (ODIs), which are South West Water's Key Performance Indicators, incorporate the metrics used by the South West Water Board and Ofwat, our economic regulator, to monitor performance.

In line with Ofwat's Regulatory Reporting requirements, this risk and compliance statement details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders. The South West Water Board has in place a well established and effective set of policies and processes covering corporate governance, internal control and risk management.

### Statutory obligations

The Company has a number of statutory obligations including those detailed within the Water Industry Act, the Companies Act, the South West Water Licence, and the Competition Act.

Since privatisation, the Company has developed and established processes and procedures for ensuring obligations are adhered to in all material aspects. Compliance with obligations and performance against targets are outlined through Regulatory Reporting. This year's performance is again summarised in the Company's Annual Performance Report and Regulatory Reporting.

The South West Water Board has received reports from the business detailing the applicable statutory licence and regulatory obligations (for which Ofwat is the relevant enforcement authority) and the means by which compliance in all material aspects with those obligations is assured within South West Water for 2017/18.

### Customer expectations

The Company has developed approaches and appropriate processes for engaging with customers to ascertain priorities and expectations.

The Company continually gathers customer feedback and engages with customers in order to understand their expectations.

South West Water has considered how communications adhere to Ofwat's information principles with the aim of ensuring information is accurate, transparent, clear, accessible and timely.

Our Codes of Practice meet licence conditions G, H and I, providing information to customers describing the nature of the services to domestic customers, giving guidance to domestic customers who have difficulty paying their bills and advising customers of their options and rights about the help available when they have a leaking supply pipe.

Our approach for producing and reviewing customer information is consistent with Ofwat's information principles. Customer research and feedback is acquired through our quarterly tracking survey and on specific topic areas to support the quality of our communications.

### Company performance

The South West Water Board monitors and controls the performance of the Company against the targets and expectations within the Final Determination and statutory obligations by:

- setting targets and reviewing performance against key levels of performance indicators and financial measures on a monthly basis at Board and Executive Management level
- implementing Investment Planning & Control procedures to ensure that the principles of proper financial control are applied throughout the inception, evaluation, implementation and handover of capital investment
- encouraging a culture of openness, where issues can be openly discussed, continuing to support a 'Whistleblowing' policy.

Performance against targets is measured and reported using key performance indicators which are aligned with those highlighted in this Annual Performance Report.

There are appropriate systems and processes in place to identify, manage and review any potential material exceptions to the delivery of outputs or changes in circumstances to that assumed within our 2014 Final Determination. These include those which might lead to an adjustment to price limits through the revenue price caps or performance measures.

South West Water has not identified any circumstances that have resulted in a material variance to the Final Determination expectations.

### Board transparency and governance

The South West Water Board is dedicated to developing and improving the governance structures and activities in accordance with best practice and Ofwat's Board Transparency and Governance requirements.

For 2017/18 South West Water had a fully functioning and standalone Board and Committees. The business of the Board with associated Audit, Sustainability, Remuneration and Nomination Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance.

In accordance with the governance framework, and as approved by Ofwat, the South West Water Board convenes before each Pennon Group Board meeting to consider South West Water strategy, performance and regulatory planning.

The governance framework is set out in the governance section on pages 40 to 49. The regulatory ring-fence around the South West Water business is protected through efficient and transparent decision making.

## RISK AND COMPLIANCE STATEMENT

The Board has a 'matters reserved' schedule setting out its responsibilities. Each Committee has detailed terms of reference setting out its responsibilities and accountabilities. Further details of the responsibilities of each of the Committees are set out in the report of each Committee on pages 46 to 60 of the Annual Report and Financial Statements. These, together with the risk management and internal controls frameworks form an effective and robust governance structure.

We will continue to review our governance structures regularly in accordance with Ofwat's Board Transparency and Governance guidelines, ensuring we continue to carry out our business in a transparent way, designed to secure the Company's long-term success and profitability.

The South West Water Board of Directors comprised the Chairman (Non-Executive), two Executive Directors, six<sup>1</sup> further Independent Non-Executive Directors (including a Senior Independent Director), three of whom are also Non-Executive Directors of the Pennon Group plc and Chris Loughlin, Pennon Group Chief Executive Officer as a non-independent Non-Executive Director. Susan Davy, Pennon Group Chief Financial Officer and Helen Barrett-Hague, Pennon Group General Counsel and Company Secretary also attend the South West Water Board. The Board considers that the Chairman and each of the Non-Executive Directors were independent throughout the year. They are considered by the Board to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations and to represent customers' interests.

The Company has complied with the UK Corporate Governance Code 2014 subject to a number of exceptions which relate to certain responsibilities being reserved by the Board and Committees of Pennon Group Plc (the parent company), which itself fully complies with the UK Corporate Governance Code. The exceptions are explained in the South West Water Annual Report pages 44 to 45.

### Risk management

The Company has robust systems and processes in place to identify, manage, mitigate and review its risks.

The system for profiling and monitoring key risks is embedded in our normal business practices. We regularly review how we have sustained specific risk control measures, to decide if the probability and consequence of certain risks has changed, and if necessary to recommend further actions or investment to ensure the effectiveness of our corporate governance.

For the purposes of assessing and managing risk within South West Water, the individual departments review risks to the business associated with their accountabilities and responsibilities within the Company strategy. An overall risk register is updated on an ongoing basis as a result of any changes in the nature and extent of risks.

Through the year, Risk and Assurance Forums (attended by members of the Executive Management and Senior Management) formally review and update the risk register on a quarterly basis, with a particular emphasis on assessing and challenging, where necessary, the controls and mitigating factors recorded on the risk register. Risks are also formally reviewed as part of the quarterly forecasting and annual business planning processes.

Executive Directors and Senior Managers are required to complete an annual 'Certificate of Effective Internal Control' prior to the finalisation of the financial statements and before publishing any annual performance data. The South West Water Audit Committee considers the resources for carrying out internal audits in key Company specific areas – this activity is carried out by the Independent Pennon Internal Audit team.

The South West Water Audit Committee endorses and acts on audit findings from these audits carried out within the Company. There is also a programme of internal audits coordinated by the Risk and Compliance Team as part of the Company's ISO 9001:2015 and ISO 14001:2015 certifications. South West Water also has the following quality accreditations/certifications:

- ISO 9001:2015 (quality management)
- ISO 14001:2015 (environmental management)
- ISO 50001:2011 (energy management)
- ISO 27001:2013 (information security)
- ISO 17025:2005 (laboratories and sampling).

### South West Water Board statement

The South West Water Board confirms that in its opinion sufficient processes and internal systems of control were in place to meet the Company's obligations for the twelve month period to 31 March 2018 for ensuring that the Company complied in all material respects with its legal and regulatory obligations as a water and sewerage undertaker.

It also confirms that in its opinion the Annual Performance Report covers the issues it considers to be material to the Company, gives a fair, balanced and understandable view of the Company's performance and compliance with the relevant obligations.

### Statement of Directors' responsibilities for regulatory information

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

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

(1) John Butterworth was appointed as a Non-Executive Director on 28 September 2017.

These responsibilities are additional to those already set out in the statutory financial statements.

In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act 2006 the following applies:

- a. So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- b. He/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Licence of Appointment – statement relating to Condition P

The Board of Directors of South West Water Limited has resolved that a Certificate be issued to the Water Services Regulation Authority confirming that in the opinion of the Board, South West Water would be able to maintain an Issuer Credit Rating which is investment grade.

In making this declaration, the Board has received external independent assurance over this assessment and has taken into account the following main factors in giving its opinion:

- key financial metrics including: adjusted interest cover; net debt / regulated asset base; FFO / net debt and RCV / net debt
- ownership and availability of assets where assets are held outright in perpetuity
- the capital programme over the current and future regulatory period as a proportion of the regulated asset base
- financial policies, including dividend policy.

## Long-term resilience and viability statement

The Board has assessed the Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a five-year period. The assessment has been made with reference to the Company's current position and prospects, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 26 to 34 of this Report. South West Water is a long-term business characterised by a multi-year investment programme, with the associated revenue stream.

The Company's strategic business plan and associated principal risks are a foundation of the scenario testing. This assessment has considered the potential impact of arising risks on the business model, future performance, solvency and liquidity over the period in question. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten viability.

Over the course of the year the Audit Committee has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability:

Principal risk	Matters considered by the Audit Committee
Cyber security	Review of the cyber security framework in place
Financial resilience	Ability to manage external shocks or potential market dislocations that could impact on financing strategy
Recruitment and retention	Review of people risks including the ability to attract and retain the right skills to deliver the Company's strategy
Water resources and resilience	Consider the impact of climate change and drought risks on water resources and ongoing flood-related resilience

In stress testing the Company's business plan it was determined that none of the individual risks would in isolation compromise the Company's viability. In performing this stress testing all risks have been monetised with reference to risk weighting, factoring in the likelihood of occurrence and financial impact. In addition, further factors were considered to reverse engineer a scenario that could possibly compromise South West Water's viability, these included:

- all the principal risks occurring in all of the five years
- lower retail price index (RPI) projections in each of the five years
- significant one-off costs
- a deterioration in the credit quality of amounts owed to the Company.

The three factors above, which are in addition to the principal risks, have been monetised as absolute financial costs and are not risk weighted on the likelihood of occurrence.

The Board considered the monetary impact of these scenarios on the Company's viability over a five-year period, concluding the reversed engineering scenario remote. The five-year period was chosen given the longer-term nature of South West Water's business, for consistency with the length of the business's regulatory pricing cycle and the associated business planning cycle.

As part of the Board's considerations additional scenarios concerning viability were reviewed. This additional assessment considered South West Water's regulatory financial ring fence through the following scenarios that are recommended to be tested by Ofwat as part of the business planning process:

- totex underperformance (15% of totex)
- ODI penalty (3% of RoRE) in one year
- inflation sensitivities (+/-3%)
- increase in the level of bad debt (20%)
- new debt financed at 2% above forward projections
- financial penalty – equivalent to 3% of turnover
- any relevant inter-company financing scenarios.

## RISK AND COMPLIANCE STATEMENT

These scenarios were considered in isolation and in the following combination:

- 10% totex underperformance in each of the five years
- ODI penalty of 1.5% in each of the five years
- One-off financial penalty of 1% of revenue.

The Directors concluded these scenarios in isolation and the combination noted above did not compromise the viability of South West Water over the five-year assessment period.

In making the assessment, the Directors have taken account of the Company's robust capital solvency position, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments.

In assessing the prospects of the Company, the Directors note that as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly the future outcomes cannot be guaranteed or predicted with certainty.

As set out in the Audit Committee's report on pages 58 to 65 of the Annual Report and Financial Statements, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

### Assurance

In addition to internal assurance performed over the viability statement and external assurance in line with EY's role as statutory external auditor of the financial statements, the Audit Committee has provided extensive oversight and review of South West Water's long-term financial resilience (see pages 61 of the Annual Report and Financial Statements) and we commissioned further specific 'Agreed Upon Procedures' to be performed by EY covering the calculations and assessments made as well as challenge of the underlying assumptions and judgements.

## Licence of Appointment – statement relating to Condition F

The Board of Directors of South West Water Limited has resolved that a Certificate be issued to the Water Services Regulation Authority confirming:

1. That in the opinion of the Directors, the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment)
2. That in the opinion of the Directors, the Company will, for at least the next twelve months, have available to it management resources which are sufficient to enable it to carry out those functions.

In making this declaration, the Directors have taken into account:

- the net worth of the Company and the strength of key performance indicators as shown in the Company Annual Performance Report for the year ended 31 March 2018 and the Company's business plan for the remaining K period
- borrowing facilities which include significant committed undrawn bank facilities
- parental support provided by the holding company which will provide financial support to the Company to enable it to meet its liabilities as they fall due
- the Company's formal risk management process which reviews, monitors and reports on the Company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners
- the Company's employment policies and strategy.

The Directors also declare that in their opinion all contracts entered into with any associated company, include all necessary provisions and requirements concerning the standard of service to be supplied to the Company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

## Licence of Appointment – statement relating to Condition R and Market Codes in respect of the Non-household market

At 31 March 2018 the Company had in place an Access Code compliant with paragraphs 2 to 4 of Condition R of the Licence from the Secretary of State for the Environment, and that South West Water has complied with this Code.

South West Water has also ensured that every transaction between itself and a related licensed water supplier is at arm's length and does not preferentially make available to the related licensed water supplier any of its other assets.

South West Water has complied with other aspects of Condition R and Market Codes in respect of the Non-household retail market.

In making this assessment, the Directors have taken into account:

- South West Water's Compliance Code (available on southwestwater.co.uk)
- Internal processes for monitoring compliance against South West Water's Code
- Internal and external assurance provided as part of the Company's preparations for the opening of the non-household retail market (prior to its opening on 1 April 2017).



## Delivering for everybody who depends on South West Water's services

South West Water's targets are ambitious and include both:

- our performance commitments in respect of the outcomes laid out in our 2015-20 business plan, which were set following extensive customer and other stakeholder engagement to reflect the priorities of our stakeholders
- a limited number of additional KPIs which have been included to provide performance information in respect of South West Water's performance in other areas deemed important to stakeholders (such as our community scorecard).

The targets are reviewed and monitored on a monthly basis with the Executive Management level 'Outcome Delivery Incentive (ODI) Group' preparing performance updates and plans to ensure targets are delivered. This group reports to the Executive and the Board.

Our performance is challenged by the WaterShare Panel and Customer View Group as described on pages 54 and 55.

This Report includes performance against all of the performance commitments as well as our additional KPIs. All performance data has been externally assured (as summarised on page 52 to 53). It also demonstrates the linkage between our purpose and values, our business outcomes, our business model and the risks to achieving these.

The majority of South West Water's outcomes have annual committed performance levels which are designed to achieve year-on-year improvements in performance.

Executive Director remuneration is linked to Company performance via the performance related bonus arrangements. This linkage is summarised on page 74 and comprehensive disclosures of Director remuneration are provided in the South West Water Annual Report and Financial Statements (pages 75 to 95), including the specific performance targets used in the bonus calculations on page 86. These targets used are either in line or more stretching than South West Water's regulatory performance commitments.

Name & Position	Signed
Sir John Parker <b>Chairman</b>	
Chris Loughlin <b>Pennon Group Chief Executive</b>	
Stephen Bird <b>Managing Director</b>	
Louise Rowe <b>Finance Director</b>	
Martin Angle <b>Non-Executive Director</b>	
Neil Cooper <b>Non-Executive Director</b>	
Martin Hagen <b>Non-Executive Director</b>	
Gill Rider <b>Non-Executive Director</b>	
Lord Taylor of Goss Moor <b>Non-Executive Director</b>	
Jon Butterworth <b>Non-Executive Director</b>	
Susan Davy <b>Pennon Group Chief Financial Officer</b>	



## RISK REPORT

### Risk management framework and internal control

South West Water faces a variety of risks which, should they arise, could materially impact its ability to achieve its strategic objectives. Effective management of these existing and emerging risks is, therefore, essential to the long-term success of the Company.

Pennon has a mature Group-wide integrated risk management framework (as described on the following page) which is fully embedded into our governance structures and culture and helps us to live up to our values of 'trusted' and 'responsible' in the way we carry out our business. Our risk management approach incorporates both 'top down' and 'bottom up' processes, ensuring a common understanding of the risks and opportunities that the Company is exposed to and how they may impact upon the achievement of the strategic priorities.

A consistent methodology is applied to the identification, evaluation and management of the Company's principal risks which considers both the likelihood of the risk occurring over a five-year period and the potential impact from a customer and other stakeholder, financial, management effort and reputational perspective. Principal and other risks are captured in risk registers which are regularly reviewed and challenged, including at the Company's quarterly Risk and Assurance Forums.

South West Water seeks to reduce its risk exposure, in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control environment which is aligned to the "three lines of defence" model, which is shown on the next page. The Board, via the Audit Committee, obtains comfort over the effectiveness of the internal control environment through the reporting of outcomes from a variety of internal and external assurance providers, including an independent internal audit function.

The key elements of the Group's risk management process include:

		Key Risk Management Responsibilities	Key Assurance Activities
<b>First Line of Defence</b>	<b>Board</b>	<ul style="list-style-type: none"> <li>• Sets the Company's strategic objectives</li> <li>• Establishes the Company's risk appetite</li> <li>• Determines the Company's principal risks</li> <li>• Ensures an effective internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly reviews of the Company's principal risks against the determined risk appetite</li> </ul>
	<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Reviews the effectiveness of the risk management framework</li> <li>• Reviews the adequacy of the internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>• Perform quarterly 'deep dive' reviews on principal risks</li> <li>• Review the Group Internal Audit Plan in respect of South West Water</li> <li>• Receive reports on the outcomes of key assurance activities</li> </ul>
	<b>Executive Management</b>	<ul style="list-style-type: none"> <li>• Day to day management of the principal and operational risks</li> <li>• Establish the relevant risk management processes and procedures</li> <li>• Maintaining the internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>• Perform a thorough appraisal of the Company's risk profile quarterly</li> <li>• Monitoring of the Company's performance against ODI/performance commitments and other KPIs</li> <li>• Establishes and reviews policies, procedures and delegated authorities</li> </ul>
<b>Second Line of Defence</b>	<b>Group Risk Forum</b>	<ul style="list-style-type: none"> <li>• Provide review and challenge over subsidiary/functional principal risks and mitigation strategies</li> <li>• Alignment of the 'top down' and 'bottom up' risk management process</li> <li>• Horizon scanning on emerging risks and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Review of principal risks on a quarterly basis</li> <li>• 'Deep dive' reviews of specific risks. Topics include: Cyber Security, Renationalisation, Health and Safety and Financial Markets and Liquidity</li> </ul>
	<b>South West Water Risk and Assurance Forum</b>	<ul style="list-style-type: none"> <li>• Horizon scanning providing a forward looking view on South West Water specific emerging risks and opportunities</li> <li>• Reporting of updated risk statuses in respect of key Company projects</li> <li>• Review of Group-wide shared service risk registers focusing on risks relevant to South West Water</li> </ul>	<ul style="list-style-type: none"> <li>• Cyclical review of principal risks over an annual cycle</li> <li>• Quarterly review of assurance processes and by exception the effectiveness of controls in mitigating risks</li> </ul>
	<b>South West Water directorate functions</b>	<ul style="list-style-type: none"> <li>• The identification and assessment of risks</li> <li>• Implementation and execution of appropriate risk mitigation strategies, aligned with the agreed risk appetite</li> <li>• Monitor compliance with internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>• Risk and Compliance functions undertake compliance activities over ISO standards and other key business processes</li> <li>• Self-certification of compliance with internal control framework</li> </ul>
<b>Third Line of Defence</b>	<b>Group Internal Audit</b>	<ul style="list-style-type: none"> <li>• Provide independent, risk-based assurance on the effectiveness of the internal control framework</li> <li>• Coordination of independent assurance activities</li> </ul>	<ul style="list-style-type: none"> <li>• Regular reporting to Audit Committee and Pennon Executive on the effectiveness of internal controls and</li> <li>• the outcomes from other third line assurance activity</li> </ul>

## Continuous improvement to risk management

South West Water and the Pennon Group as a whole seek to continually improve its approach to risk management. During the year there have been a number of developments which have further enhanced the risk management process. These include:

- A Pennon Group Director of Risk and Assurance being appointed with responsibility for the Group Internal Audit and Risk Management functions and the coordination of assurance activities
- The Group-wide health and safety programme, HomeSafe, has been implemented across a number of sites and is being rolled out across South West Water
- A Health, Safety, Security, Assurance (HSSA) function being established providing second line assurance over the application of Health, Safety and Security processes and controls
- South West Water's internal second line assurance programme in respect of quality, environment, energy and information security being reviewed and expanded
- The update of several key corporate policies and procedures, including aligning across the Group where relevant
- The review and challenge of risks relating to Group corporate functions that have been established during the year by the Group Risk Forum and South West Water's Risk and Assurance Forums
- A programme of compliance training being rolled out to staff, with a focus on individuals in operational roles.

## Risk appetite

The UK Corporate Governance Code requires companies to determine their risk appetite with respect to the level of risk it is considered appropriate to accept in achieving strategic objectives. Striking an appropriate balance between risk and reward is key to the success of the Company's strategy. The Board has established their risk appetite for each of the principal risks which allows the business to pursue value enhancing opportunities, whilst maintaining an overall level of risk exposure which the Board considers to be appropriate. The Board's evaluation of the effectiveness of internal control is considered in the context of the stated risk appetite.

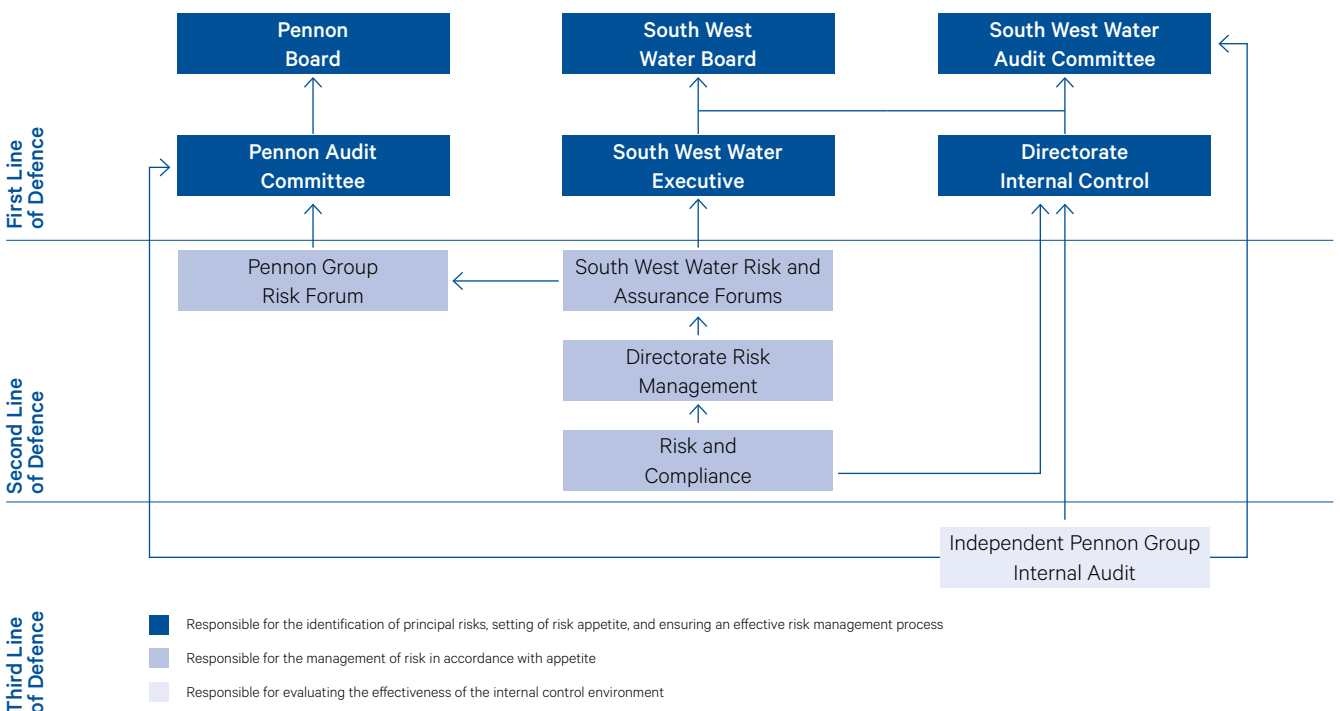
## Ofwat's principles for holding companies – board leadership, transparency and governance

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which could materially impact on South West Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of South West Water's duties and obligations under its licence, as well as an appropriate level of information sharing and disclosure to give South West Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Further details of Group-wide principal risks and application of the Group's risk management framework across the Group are provided in the Pennon Group plc Annual Report (pages 52 to 61).

## Risk management framework





## RISK REPORT

### Principal risks and uncertainties

South West Water's business model exposes the business to a variety of external and internal risks. The assessment of the Company's principal risks is informed by the potential impact of macro level political, economic and environmental factors. Whilst the ability of the Company to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications on the Company are considered as part of the on-going risk assessment process. This includes undertaking scenario planning and analysis to understand the potential risk exposure of one, or a number, of these events occurring and taking appropriate steps to reduce the impact on the Company.

Over the past year there has been a significant increase in the level of uncertainty within the water sector as a result of evolving political views on the future of the Water industry, including nationalisation and the associated influence on the priorities and focus of the regulator. A specific risk 'Government and Regulatory Reform' is included within the statement of principal risks, below, which reflects this uncertainty and the potential risk exposure to the Company

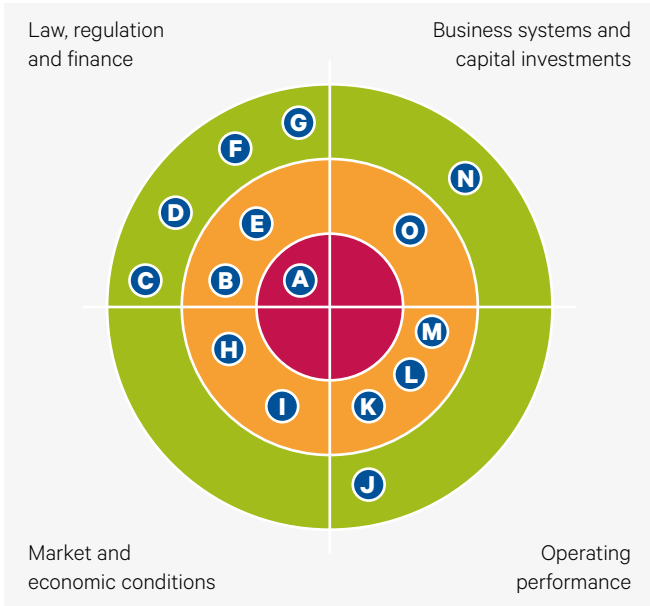
Additionally, South West Water has added a risk relating to 'Tax compliance and contribution'. This reflects both the finalisation of tax returns for older periods with HMRC and the increased external focus on whether the tax contribution paid by water companies and other large corporate organisations is sufficient.

The Directors confirm that during 2017/18 they have carried out a robust assessment of risks facing the Company, including assessing the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on page 59.

### The United Kingdom's exit from the European union

South West Water continues to regularly monitor the potential risks and implications arising from the United Kingdom's decision to trigger Article 50 and exit the European Union. Whilst a significant amount of uncertainty remains, the following issues have been identified which impact the Group's principal risks and may be influenced by any agreement between the UK and the EU:

- **Changes in environmental legislation, such as drinking and bathing water quality.** At present the Company does not anticipate any significant deviation in existing environmental legislation or regulations when existing EU legislation is transferred to domestic UK law (principal risk C)
- **Exposure to exchange rate and interest rate fluctuations.** There is limited exposure to exchange rate fluctuations which is further mitigated through forward contracts providing certainty over future foreign currency risk. Interest rate risks are mitigated through having a long-term maturity of debt and finance leases with a significant proportion of interest-bearing liabilities at fixed rates (principal risk D)
- **Inability to access the same levels of funding from the European Investment Bank.** Whilst South West Water has a variety of funding opportunities available to it, it continues to call for an appropriate UK replacement (principal risk D)
- **Impact on the domestic economy and the ability of our customers to pay their bills.** South West Water has a mature process to proactively monitor debt levels and operate a number of initiatives to support customers who are unable to pay their bills (principal risk H)
- **The ability to attract and employ EU nationals with the necessary skills and experience.** Although there is increased uncertainty over the movement of labour following the UK leaving the EU, South West Water has not historically employed a significant number of non-UK EU nationals and exposure to this risk is limited (principal risk M).



### Strategic impact and risk ratings

- People and community
- Finance and economy
- Water
- Service
- Environment

Key	Risk level		
The low, medium and high risk level is our estimate of the net risk to the Company after mitigation. It is important to note that risk is difficult to estimate with accuracy and therefore the actual risk may be greater or less than our estimate indicates.	Low	Medium	High
	●	●	●
Current assessment of direction of travel of risk level	Increasing ↑	Stable ↔	Decreasing ↓



Principal Risk	Ref	Strategic priorities	Risk description	Net risk level	Trend
Law regulation and finance	A	Finance and economy	Change in government policy/renationalisation	●	↑
	B	Environment Finance and economy	Regulatory reform	●	↑
	C	Environment Finance and economy	Compliance with laws and regulation	●	↔
	D	Finance and economy	Maintaining sufficient finance and funding to meet ongoing commitments	●	↔
	E	People and community	Non-compliance or occurrence of avoidable health and safety incident	●	↔
	F	People and community Finance and economy	Tax compliance and contribution	●	↔
	G	Finance and economy	Increase in defined benefit pension scheme deficit	●	↔
Market and economic conditions	H	Finance and economy	Non-recovery of customer debt	●	↓
	I	Finance and economy	Macro-economic risks impacting commodity and power prices	●	↑
Operating performance	J	Water Environment	Poor operating performance due to extreme weather or climate change	●	↑
	K	Service	Poor customer service/increased competition leading to loss of customer base	●	↔
	L	Water Service Environment	Business interruption or significant operational failure/incidents	●	↑
	M	People and community	Difficulty in recruitment, retention and development of skills	●	↑
Business systems and capital investments	N	Finance and economy	Failure or increased cost of capital projects/exposure to contract failures	●	↔
	O	Water Service	Failure of IT systems, management and protection including cyber risks	●	↑





## RISK REPORT

### Principal risks: law regulation and finance

#### A. Changes in government policy/renationalisation

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Finance and economy</b></p> <p>South West Water is required to comply with an ever increasing range of regulated and non-regulated laws and regulation.</p> <p>Non-compliance with one or a number of these may result in financial penalties, a negative impact on our ability to operate effectively and reputational damage which could affect shareholder value.</p>	<p>The renationalisation of the water industry continues to be a central policy of the opposition and remains a possibility in the event of a change of government. We recognise however, that the current government is supportive of the existing regulatory model. We engage regularly with all political parties as well as customers and stakeholders demonstrating the value they receive based on our operational performance and continued investment in the network infrastructure.</p>	<p><b>2018</b></p> <p></p> <p><b>2017<sup>(1)</sup></b></p> <p></p>	<p>We recognise that government policy evolves and seeks to minimise potential risk and maximise opportunities through regular communication and robust scenario planning.</p>

#### B. Regulatory reform

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Environment</b></p> <p><b>Finance and economy</b></p> <p>Reform of the regulatory framework may result in changes to our priorities and the service we provide to our customers. It may have a significant impact on our performance which can impact value.</p>	<p>During the year Ofwat finalised their price review methodology for 2020-25. In addition there has also been a focus on the corporate governance of companies in the sector. We are broadly supportive of the proposed changes and engage fully with Ofwat during each consultation. Action has already been taken to address a number of Ofwat's concerns.</p> <p>We are well positioned for the new regulatory period with a dedicated, experienced PR19 project team, supported by external consultants, which is monitored through a robust governance framework.</p>	<p><b>2018</b></p> <p></p> <p><b>2017<sup>(1)</sup></b></p> <p></p>	<p>We accept that regulatory reform occurs and seek to leverage the opportunities this creates whilst mitigating the associated risk.</p>

(1) When included as a combined legal compliance/reform risk.

### C. Compliance with laws and regulations

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Environment</b></p> <p><b>Finance and economy</b></p> <p>South West Water is required to comply with an ever increasing range of laws and regulation.</p> <p>Non-compliance with one or a number of these may result in financial penalties, a negative impact on our ability to operate effectively and reputational damage which could affect shareholder value.</p>	<p>Our robust regulatory framework ensures compliance with Ofwat, Environment Agency and other relevant requirements.</p> <p>Employees, contractors and partners receive a rolling programme of training and guidance. Additionally, during the year we have launched our 'Speak Up' whistleblowing policy.</p> <p>We have been pro-actively reviewing our policies and processes in preparation for the introduction of GDPR and have appointed a dedicated Data Protection Officer, who acts across the Pennon Group.</p>	<p><b>2018</b></p> <p></p> <p><b>2017<sup>(1)</sup></b></p> <p></p>	<p>South West Water has the highest standards of compliance and has no appetite for legal or regulatory breaches.</p> <p>We aim to minimise the impact of regulatory reform by targeting changes which are net present value neutral over the longer term to protect customer affordability and shareholder value.</p>

### D. Maintaining sufficient finance and funding, within our debt covenants, to meet ongoing commitments



Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Finance and economy</b></p> <p>Failure to maintain funding requirements could lead to additional finance costs and put our growth agenda at risk.</p> <p>Breach of covenants could result in the requirement to repay certain debt.</p>	<p>South West Water and the entire Pennon Group have mature treasury, funding and cash flow policies in place. We regularly consider how political, economic and regulatory risks may impact on the Company's financing commitments and cash flow.</p> <p>The Group operates with a strong liquidity position and a diversified funding mix. South West Water is funded to March 2020.</p> <p>Funding is in place at effective average interest rates below many in the sector, with prefunding and headroom, including revolving credit facilities, to meet future funding requirements.</p> <p>South West Water currently has a strong liquidity and funding position, being pre-funded until the end of the current regulatory period in 2020 and beyond.</p> <p>Borrowing continues to be successfully raised by the Group Treasury team. This included refinancing of the Group £300m hybrid in September 2017.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>We operate a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.</p>

(1) When included as a combined legal compliance/reform risk.




RISK REPORT

**Principal risks: law regulation and finance continued**  
**E. Non-compliance or occurrence of an avoidable health and safety incident**



Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>People and community</b></p> <p>A breach of health and safety law could impact upon our people (including contractors) as well as leading to financial penalties, significant legal costs and damage to South West Water's reputation.</p>	<p>The effective management of health and safety-related risks continue to be a priority for the Board and Executive Management.</p> <p>The Group-wide HomeSafe programme is now being rolled out across South West Water. It is supported by a programme of capital investment for existing assets.</p> <p>The Group has also invested in people, processes and systems within its Health, Safety, Security and Assurance (HSSA) function during the year which will assist in driving consistency and monitoring compliance with health and safety standards, including within South West Water.</p> <p>The number of accidents reportable under RIDDOR (Reporting for Injuries, Diseases and Dangerous Occurrences Regulations) for the 2017 calendar year was nine across both our operational areas (2016: nine).</p> <p>Ever higher standards are expected both internally and externally and therefore the underlying risk of not achieving these higher standards is considered to be rising.</p> <p>South West Water are aiming to become certified to the new ISO 45001:2018 (health and safety) standard in 2019.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>The Board has no appetite for health and safety-related incidents and has the highest standards of compliance within the Company and third parties.</p>



## F. Taxation compliance and contribution

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>People and community</b></p> <p><b>Finance and economy</b></p> <p>Non-compliance may result in financial penalties, legal costs and reputational damage.</p> <p>Furthermore, the perception that South West Water's overall tax contribution is inadequate could have a detrimental impact on the reputation of the Company.</p>	<p>The Group has an experienced and professionally qualified in-house tax team, supported, where necessary, by external specialists.</p> <p>Significant progress has been, and continues to be, made to agree outstanding items with HMRC. The agreement of uncertain tax items relating to past periods has facilitated the finalisation of tax returns for older periods.</p> <p>Furthermore, during 2017 the Group published its approach to tax and the tax contribution made by the Group. This was informed by the outcomes of extensive stakeholder research which was conducted via focus groups and qualitative surveys.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p>Not assessed</p>	<p>We ensure full compliance with HMRC requirements and will not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation.</p>

## G. Increase in defined benefit pension deficit

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Finance and economy</b></p> <p>The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.</p>	<p>We use professional advisors to manage the pension scheme's investment strategy to ensure the scheme can pay its obligations as they fall due.</p> <p>The last triennial evaluation, which demonstrated the recovery plan from 2013, is still on track.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>The Board expectation is that pension benefits can be paid in full without increased costs to the Company.</p>



## RISK REPORT

### Principal risks: market and economic conditions

#### H. Non-recovery of customer debt and affordability

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Finance and economy</b></p> <p>There is a potential impact on revenue as a result of reduced customer debt collection, particularly with regards to vulnerable customers and affordability.</p>	<p>Following South West Water's exit from the Non-household retail market, this risk now reflects household consumers and non-household retailers. In line with market codes, robust procedures have been established to protect South West Water from largescale exposure to retailer default.</p> <p>Mature and embedded debt collection strategies are in place for the recovery of domestic customer debt. This is supplemented by social tariffs, now in place across both our operating areas and affordability schemes (such as Restart, WaterCare and Freshstart) to help reduce our bad debt exposure for those customers who are struggling to pay.</p> <p>South West Water's performance has improved in the last two years in respect of household debt collection. A lack of significant increases in household charges for 2018/19 should also contribute to further strong performance.</p>	<p><b>2018</b></p> <p>● ↓</p> <p><b>2017</b></p> <p>● ↔</p>	<p>Whilst seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect domestic customers, some risk of uncollectable debt remains.</p>

#### I. Macro-economic risks arising from a downturn in the global and UK economy and commodity and power prices



Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Finance and economy</b></p> <p>The economic climate as well as commodity and energy prices have a direct impact upon the costs we pay for goods and services.</p>	<p>South West Water has established procurement procedures to source its goods and services through the most appropriate source, ensuring quality of provision and price.</p> <p>The Procurement Steering Group (PSG) oversees strategies and policies to promote effective working practices for strategic contracting relationships.</p> <p>Energy usage is minimised (including minimisation of usage during periods of increased cost) and where possible on-site renewable generation is undertaken to reduce the requirement to purchase electricity from the grid.</p>	<p><b>2018</b></p> <p>● ↑</p> <p><b>2017</b></p> <p>● ↔</p>	<p>We seek to take well-judged and informed decisions whilst ensuring plans are in place to mitigate the potential impact of macro-economic risks.</p>

## Principal risks: operating performance

### J. Poor operating performance due to extreme weather or climate change

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Water</b></p> <p><b>Environment</b></p> <p>Failure of our assets to cope with extreme weather conditions may lead to an inability to meet our customers' needs, environmental damage, additional costs being incurred and reputational damage.</p>	<p>Contingency plans, emergency resources and investment through a planned capital programme assist in mitigating the risks of extreme weather incidents.</p> <p>The recently published Water Resources Management Plan has not identified an overall significant increase in the risk to water resources, however ongoing climate challenges, such as those experienced in March 2018, are expected to test South West Water's assets.</p> <p>As part of this plan a pro-active strategy to further reduce leakage, promote water efficiency and to continue to develop our water resource planning tools has been developed.</p> <p>We also prepare drought plans every three years which are reviewed annually for a range of climate change and demand scenarios.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>We seek to reduce both the likelihood and impact of climate change through long-term planning to ensure sufficient measures are in place to mitigate this risk.</p>



### K. Poor customer service/increased competition leading to loss of customer base

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Service</b></p> <p>Poor customer service has a direct impact on South West Water's delivery of the PR14 business plan.</p>	<p>Targeted improvements to continually improve customer service within South West Water have contributed to the achievement of the ServiceMark accreditation during the year. We continue to secure high Service Incentive Mechanism (SIM) scores, which have improved in both our operating areas this year.</p> <p>There has been a significant focus on our customer experience during the year and the reorganisation of the marketing and sales, service delivery and customer service functions has improved this further, alongside the launch of annual customer survey.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>We continually seek to increase customer satisfaction.</p>

RISK REPORT

Principal risks: operating performance continued

L. Business interruption or significant operational failure/incidents



Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Water</b> <b>Service</b> <b>Environment</b></p> <p>Operational failure could mean that we are not able to supply clean water to our customers or provide safe wastewater services.</p> <p>This has a direct impact on the successful delivery of the PR14 business plan.</p>	<p>Due to the nature of South West Water's business there are risks which arise during the normal course of business, including risk of failure of assets, processes or systems. These could include:</p> <ul style="list-style-type: none"> <li>• water quality deterioration</li> <li>• contamination of water supplies</li> <li>• pollution and flooding events</li> <li>• water resource restrictions.</li> </ul> <p>South West Water again experienced pollution incidents outside of target performance commitment levels, although the number of incidents has reduced. A continued reduction in the number of pollution events (especially wastewater events) has been identified as a priority and a programme of targeted action is currently underway to address these risks.</p> <p>South West Water maintains detailed contingency plans and incident management procedures which are regularly reviewed.</p> <p>Equipment failure is managed through a programme of sophisticated planned and preventive maintenance regime and effective management of stores.</p> <p>Comprehensive insurance is also maintained across the asset base in the event of an incident occurring.</p>	<p><b>2018</b> </p> <p><b>2017</b> </p>	<p>We operate a low tolerance for significant operational failure or incidents. We seek to mitigate these risks where possible and accelerate the recovery from any incident.</p>

M. Difficulty in recruitment, retention and development of appropriate skills, which are required to deliver the Company's strategy

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>People and community</b></p> <p>Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities.</p> <p>We need the right people in the right places to share best practice, deliver on our customers' priorities and deliver synergies (including through the Group's 'shared services' structure).</p>	<p>The Group's people strategy, underpinned by six threads, has been rolled out and is designed to ensure we have the workforce necessary to deliver our strategic priorities. This has included refreshed Group-wide Vision and Values, increased workforce engagement, continued commitment to training and development and the introduction of a Pennon Code of Conduct.</p> <p>South West Water's apprenticeship programme also spans all areas of the business and has now employed its 149<sup>th</sup> apprentice.</p> <p>Succession plans remain in place for senior and other key positions. Challenges remain, however, in sourcing skills and expertise externally for specific senior and operational roles (particularly in the engineering, finance and scientific areas).</p>	<p><b>2018</b> </p> <p><b>2017</b> </p>	<p>Whilst turnover does occur, we ensure the appropriate skills and experience are in place with succession plans to provide resilience in mitigating the impact of this.</p>

## Principal risks: business systems and capital investment

### N. Failure or increased cost of capital projects/exposure to contract failures

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Finance and economy</b></p> <p>Failure of our assets to cope with extreme weather conditions may lead to an inability to meet our customers' needs, environmental damage, additional costs being incurred and reputational damage.</p>	<p>All capital projects are subject to a robust business case process and skilled project management resource and senior oversight is utilised to provide additional rigour in the delivery of major projects.</p> <p>Robust due diligence is undertaken on key suppliers, technologies and acquisitions. Back to back agreements and supplier guarantees also provide additional protection.</p> <p>The Mayflower Water Treatment Works in Plymouth remains on schedule and on budget. The site will use new technology to provide high quality drinking water to customers in Plymouth in as efficient manner as possible.</p> <p>The project is a major investment for South West Water and forms part of the capital programme in the 2015-20 business plan.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>South West Water's investment activities are taken on an informed basis with risks weighed against appropriate returns.</p>

### O. Failure of information technology systems, management and protection including cyber risks

Strategic impact	Mitigation and commentary	Risk level and trend	Risk appetite
<p><b>Water Service</b></p> <p>Failure of our information technology systems, due to inadequate internal processes or external cyber threats could result in the business being unable to operate effectively and the corruption or loss of data. This would have a detrimental impact on our customers and result in financial penalties and reputational damage.</p>	<p>South West Water and the wider Group operate a mature and embedded governance framework over the business as usual IT environment and major project implementations. This is aligned to the ISO27001 standards which South West Water has been certified under for several years and regular internal and external assessments are undertaken to maintain this accreditation.</p> <p>Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed and tested.</p> <p>Cyber risks are mitigated by a strong information security framework. This is aligned with guidance issued by the National Cyber Security Centre (NCSC).</p> <p>Awareness campaigns have been undertaken during the year aligned with preparations for the General Data Protection Regulation (GDPR). A variety of internal and external assessments are also undertaken, including annual penetration testing, to test the robustness of our controls.</p>	<p><b>2018</b></p> <p></p> <p><b>2017</b></p> <p></p>	<p>We seek to minimise the risk of informational technology failure and cyber security threats to the lowest level without detrimentally impacting on business operations.</p>



## ACCOUNTING DISCLOSURES

### Basis of preparation

These regulatory accounts are prepared in accordance with regulatory accounting guidelines issued by the Water Services Regulation Authority (Ofwat), specifically:

- RAG 1.08 – Principles and guidelines for Regulatory Reporting
- RAG 2.07 – Guideline for classification of costs across the price controls
- RAG 3.10 – Guideline for the format and disclosures for the Annual Performance Report
- RAG 4.07 – Guideline for the table definitions in the Annual Performance Report
- RAG 5.07 – Guideline for transfer pricing.

They have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union except for the dis-application of certain parts of IAS 18 in respect of the probability of collection of billed revenue and IAS 23 in relation to the capitalisation of interest incurred during the construction phase of items of 'property, plant and equipment.' The detailed accounting policies applied by South West Water are set out on pages 115 to 120 of our Annual Report and Financial Statements.

The accounting policies and disclosures set out below are those specifically required within RAG 3.10.

These regulatory accounts were approved by the Board of Directors on 12 July 2018.

### Directors' emoluments

#### Payments related to performance against agreed standards

As required by the Water Act 2014 and Regulatory Accounting Guidance from the Water Services Regulation Authority (Ofwat), additional information is given regarding this aspect of remuneration.

Full and detailed disclosures of Directors' remuneration are included on pages 75 to 95 of the South West Water Annual Report and Financial Statements including details of the performance-related bonus arrangements and the amounts paid to Directors under those arrangements.

The payments for the two Executive Directors relating to the year 2017/18 expressed as a percentage of base salary up to a maximum of 75% (of which half is received as deferred Pennon Group Plc shares) were as follows:

- 37.5% profit before tax of Pennon Group plc (incorporating South West Water)
- 7.5% for South West Water return on regulated equity (RoRE) performance
- 15% for the average of South West Water specific operational performance (in respect to targets which related to a range of ODI service standards, including the Service Incentive Mechanism)
- 15% for achievement of personal strategic objectives.

These arrangements for 2017/18 were approved by the Remuneration Committee. Any changes in these arrangements for 2018/19 are noted in the Remuneration Report, included within the South West Water Annual Report and Financial Statements (pages 75 to 95). This report is available online at [southwestwater.co.uk/report2018](http://southwestwater.co.uk/report2018).

### Dividend policy

South West Water has established a dividend policy which involves the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital
- a further level of growth funded by efficiency out-performance
- comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations.

Payments are also designed to ensure that the ability of the appointed business to finance its activities is not impaired.

Dividends totalling £120.3m (2016/17: £213.1m) were paid to the parent undertaking, representing a base dividend of £55.2m and £65.1m of outperformance dividend-based on cumulative performance for 2016/17.

The base dividend was calculated with reference to the projections in the Ofwat 2014 Final Determination and the assumptions for 2017/18 included within the 2015-20 Business Plan.

### Accounting policy note for price control segments

In accordance with Regulatory Accounting Guideline 4.07 – 'Guideline for the definitions table definitions in the Annual Performance Report', a segmental income statement (table 2A) and other segmental analysis (tables 2B to 2I) are presented within the Regulatory Reporting.

This segmental analysis separates certain financial and non-financial information between the following four regulatory price controls:

- wholesale water
- wholesale wastewater
- retail household
- retail non-household.

Whilst these business units are not treated as organisationally separate businesses or separate companies by South West Water there are certain activities which are solely carried out by specific areas of the business due to more efficient and effective structures being in place to support the management and accountability of the business.

Certain departments (especially operational departments) may provide services for one regulatory price control segment, however many other departments perform services across two or more regulatory price control segments. Certain financial and non-financial information is therefore separated based upon a methodology which includes some assumptions and judgements utilising all available information.

As the price controls are not organisationally separated in South West Water they do not have their own separate management and support functions and they do not trade with one another. To represent them as distinct controls requires the allocation of costs and assets to them.

Wherever possible, direct costs and assets have been directly attributed to business units. Where this is not possible, appropriate cost allocations have been applied linked to the key metric which best reflects the nature of the activity and costs.

The allocation between activities is reviewed annually to ensure the basis of allocation is still appropriate.

Where no direct allocation is possible management judgement is applied to allocate costs separately. The resulting costs reported for these business units do not necessarily represent what the costs would be if they were operated as separate business units.

## ACCOUNTING DISCLOSURES

### Services

The allocation of operating costs within South West Water to specific service areas within the appointed business is based on activity analysis and principles which result in both direct and support costs being apportioned where not directly attributed. Activity levels between individual services are ascertained by reference to time allocations by individual employees along with other allocation bases in accordance with the underlying nature of resource utilisation.

A full 'accounting separation' methodology statement can be found at [www.southwestwater.co.uk](http://www.southwestwater.co.uk). The methodology statement explains in detail the basis of allocations for costs and assets.

### Revenue recognition

Revenue represents the income receivable in the ordinary course of business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

South West Water was granted permission by the Secretary of State to withdraw from the non-household retail market with effect from 1 April 2017. On this date all of its non-household customers were transferred to Pennon Water Services Ltd (the Acquiring Licensee). Wholesale non-household revenue is now recognised in line with the Central Market Operating System (CMOS).

For domestic customers, the measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual for unbilled charges is estimated using a defined methodology reflecting historical consumption, estimated demand trends and current tariffs. The measured income accrual is recognised within revenue. The methodology for calculating the measured income accrual is consistent with that applied in 2016/17. A retrospective review of the 2016/17 measured income accrual and the amounts actually billed during 2017/18 which would be expected to align to the accrual was performed and there was no material difference.

A property which is believed to be occupied (due to meter activity or other occupancy indicator), but where the occupier's details are not known, is billed in the name of 'the occupier' as efforts are made to obtain the occupier's details. The Company actively seeks to identify the name of 'the occupier' through multiple measures including visits to the property and land registry searches. If the occupier cannot be confirmed within 90 days of invoice, the bill is cancelled and the property classified as void. These properties are given a void status within the billing system, they are not billed speculatively (that is to 'the occupier') and revenue is not recognised against these properties.

Where an invoice has been raised or payment made but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year's revenue but will instead be recognised within creditors.

Charges on income arising from court, solicitor and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover.

A summary of the differences between revenue recognised in the statutory financial statements and Regulatory Reporting is included on page 87.

Within the statutory accounts, and in line with IAS 18, revenue is only recognised if it is deemed probable that the economic benefits associated with the transaction will flow to South West Water (i.e. it is probable it will be collected given all available information such as customer payment history). Within the Regulatory Accounts, in a deviation from IAS 18 in line with Ofwat RAG 1.08, revenue is recognised for all properties where a service is being received even where it would not be deemed probable it would be collected. This difference in accounting treatment has resulted in £6.7m of revenue recognised within the Regulatory Reporting which is not recognised as revenue within the Financial Statements.

Following this accounting treatment an additional £6.7m is recognised as a bad debt charge within operating expenses compared to the statutory financial statements, which results in no difference in operating profit or profit before tax.

### Capitalisation policy note

The cost of property, plant and equipment capitalised includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Costs which meet the criteria for a capital asset and total in excess of £1,000 are capitalised.

Plant, property and equipment includes:

#### i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS and subsequent additions at cost, less accumulated depreciation. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the Company. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives and are principally:

Dams and impounding reservoirs	200 years
Water mains	40 – 120 years
Sewers	40 – 120 years

Assets in the course of construction are not depreciated until commissioned.



**ii) Other assets (including property, overground plant and equipment)**

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives to their residual value and are principally:

Freehold buildings	30 – 60 years
Operational properties	40 – 80 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	4 – 10 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Assets transferred from customers are recognised at fair value.

The assets' residual values and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

In line with IAS 23, within the Statutory Accounts and Financial Statements, borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. However within the Regulatory Reporting, in a deviation from IAS 23 and in line with Ofwat RAG 3.10, borrowing costs are not capitalised.

**Bad debt note**

At the balance sheet date the Company evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2018 the Company's current amounts receivable from customers were £184.3m, against which £89.7m had been provided for impairment.

Debt is written off only when all methods have been used to trace previous occupiers.

There has been no change to the write-off policy or bad debt provisioning policy. Year on year movements in the trade debtor balance are discussed in the 'Financial Performance' section.

## INDEPENDENT AUDITORS REPORT

# Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of South West Water Limited

### Opinion

We have audited the tables within South West Water Limited's Annual Performance Report for the year ended 31 March 2018 ('the Regulatory Accounting Statements') which comprise:

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

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

In our opinion, the Company's Regulatory Accounting Statements within the Annual Performance Report: have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.10, RAG 4.07 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.10, appendix 2), set out on pages 74 to 77.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.10, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

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

The Regulatory Accounting Statements on pages 86 to 103 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the Directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on pages 58 to 59, the Directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.10, appendix 2).

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## INDEPENDENT AUDITORS' REPORT

# Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of South West Water Limited continued

### Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Annual Performance Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Company's Annual Performance Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the Directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the Company.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out on page 75 and its accounting methodology statement published on the Company's website on 13 July 2018. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

## Opinion on other matters prescribed by Condition F

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

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

## Use of this report

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

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2018 on which we reported on 30 May 2018, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Ernst & Young LLP

Statutory auditor  
Reading  
13 July 2018

## TECHNICAL AUDITORS' REPORT

### Introduction

South West Water (SWW) has eight Outcomes with 42 Performance Commitments (PCs), 18 of which have financial penalties or rewards incentives (Outcome Delivery Incentives (ODIs)). Bournemouth Water (BW) has six Outcomes with 15 Performance Commitments ten of which have financial penalties or rewards incentives. For both SWW and BW these were mandated in the respective company's 2014 Final Determination, prior to the acquisition of BW by the parent company Pennon Group plc.

SWW is monitoring and measuring its performance throughout AMP6 to ensure it meets its agreed targets. SWW is publishing its progress as at 31 March 2018 against the targets set in the 2014 FD.

Progress is monitored monthly by Senior Management and the Directors via the Directors' report. In addition, the independent customer group, WaterFuture, which represents SWW's customers, and BW's Customer View Group also monitor performance and challenge the Company to ensure performance remains on track.


As SWW's technical assurance partner, we were requested to audit and assure the reported PC and ODI metrics which are derived from internal Company data which we have assured. The purpose of the audit was to review the methodologies for compiling the information and provide an opinion on the accuracy, reliability and completeness of the data.

Our audits commenced in February 2018 with a series of process/methodology audits of key areas, followed by detailed data audits in April and May 2018. Our data audits incorporated 'audit tests' which challenged the data, systems and processes to assess them against Red/Amber/Green (RAG) materiality criteria. We have reported detailed audit observations in each area to management.





This Assurance Report provides assurance to the Executive Management that the reported PC and ODI performance is accurate, reliable and complete. We also confirm that information is consistent with supporting data sets and commentaries used for internal purposes to operate and monitor the performance of the business.

### Audit Opinion

Our audit of CAPR18 enables us to conclude the ODI information to be published has been compiled using information which is accurate, reliable and complete, to the extent that our audit to the preceding level of audited documentation and/or other data sources allows. Our audits have identified a small number of minor exceptions (mostly procedural), process improvements and elements to monitor to ensure performance in the current year. We consider the metrics provide a fair and reasonable account of SWW's performance as measured through the ODIs for both the SWW and BW regions in 2017/18.

Item	RAG	Audit statement
ODI information		<p>We conclude that the ODI information reported at 31 March 2018 is accurate, reliable and complete, to the extent that our audit to the preceding level of audited submission documentation and/or other data sources allows. We consider the reported metrics correctly represent SWW's progress towards achieving its 2020 targets set for both the SWW and BW regions.</p> <p>We confirmed that information is soundly based, using audited CAPR18 data as the source information for the majority of ODIs. Where information is not sourced from CAPR data, we confirmed robust systems are in place to capture the required information.</p>

Our key audit findings follow, assessed against the agreed RAG criteria below.

-  No exceptions and compliant with requirements
-  Minor exceptions
-  Material exceptions
-  Non-material observation or suggested recommendation for improvement

## ODI Key Findings

We have assessed the information within our scope against the audit tests in the RAG summary in section 4.0 and can confirm that we are satisfied that ODI information provides a fair and reasonable account of SWW's and BW's progress against the ODIs in year three of K6. Our audits enable us to confirm:

- Levels of compliance with SWW's internal requirements and definitions of performance commitments & ODIs in the 2014 FD have remained high in all functions.
- Progress with the ODIs is reported monthly through the Directors' report which is reviewed by the Executive Management Board and ODI Board which demonstrates thorough governance.
- Some processes in BW have been aligned to those of SWW which has driven improved performance such as written complaints. Other processes are being aligned in the current year.
- We found the internal QA of data could be improved as it may be too high level to pick up line-level errors.
- We confirmed all four asset Serviceability measures are 'Stable', with the Unplanned Interruptions measure returning to Stable within the upper reference level (see below). SWW successfully implemented its action plan in place to improve performance during the year. SWW is excluding all supply interruptions during the freeze/thaw event from 1 to 8 March 2018. This is supportable because the interruptions occurred as a result of the weather conditions and do not appear to indicate underlying deterioration in asset performance.
- The sub-components of Wastewater Asset Health (infrastructure) all show improved performance. Sewer flooding (other causes), repeat floodings, and overall size of internal flooding register all show improvement. This is mainly due to network investment and proactive operational maintenance initiatives. The sewer flooding targets are highly challenging and SWW has achieved a reward in both categories.
- The number of total burst mains is in line with performance in 2016/17 with an increase of 18, despite the impact of the freeze/thaw event in March 2018. The trend seen in previous years with an increase in bursts during the summer on Asbestos Cement mains, and a rise in Cast Iron mains bursts in the winter has repeated as expected. The overall number of bursts remains within the serviceability reference levels indicating a generally stable network.
- SWW has made good progress in the implementation of its action plan to improve performance with water supply interruptions. Changes have been made to governance in the Central Team responsible for investigation and verification of interruption events. Additional equipment is available to field crews to maintain supplies where possible, and reduce the duration of interruptions where unavoidable. Significant progress has been achieved to install some 1,800 flow and pressure loggers which provide real time early warning of potential network events enabling SWW to mobilise earlier responses. These loggers provide data which assists in post event reviews with greater use of hydraulic modelling producing more accurate assessments of the number of customers affected and the duration of interruption. SWW's processes are aligned to another leading company in this aspect of service provision.
- The freeze/thaw event in March 2018 had a severe impact in Devon and Cornwall. As a direct result of the event, supply interruption performance in the SWW region has exceeded the upper limit (annual target) of 0.228 min/property outturning at 0.369 mins/property. This is unfortunate because without the severe weather SWW was on track to meet the target following improvements made with the action plan. SWW has made a case to mitigate the impact of the severe weather on the penalty (end of period) by excluding interruptions during the three day period when a Major Incident (Civil Emergency) was declared by the Local Resilience Forum. During civil emergencies, certain circumstances are considered to be outside the control of organisations.
- BW's supply interruptions are at a historic low. Burst mains also show a downward trend from an already low level.

## TECHNICAL AUDITORS' REPORT

### ODI Key Findings continued

- SWW's leakage is confirmed as outperforming the target for the calendar year. Similarly, BW's leakage for the Financial Year has outperformed the target.
- Performance with BW's ODI to Repair Visible Leaks (percentage of visible leaks being repaired within seven calendar days of BW becoming aware) has declined significantly to 62.4% (was 80.0% in 16/17). CAPR18 performance is below the 2014/15 starting level of 77.0%; the end of AMP target is 85.0%. We understand this is due to a lower number of experienced resources within the framework contractor's organisation.
- Compliance with water quality standards falls marginally short of the target at 99.96% Mean Zonal Compliance (target is 99.98%) but is within the penalty deadband.
- We confirmed 91.6% wastewater operational contacts resolved first time against a target of 93% which attracts a small in-period penalty.
- Pollutions (Water) Category 3 & 4 has increased to 18 (9 in 16/17) against an annual target of two. We found this results from better awareness among operators about what a pollution is following training (better self reporting), and a change in the EA's requirements for companies to challenge the categorisation of pollutions within 30 days, but the EA often failing to notify companies within this period. SWW is addressing this.
- The annual targets for Pollutions (Wastewater) Category 1 & 2 and 3 & 4 are tighter compared to 16/17. SWW's performance has improved but has missed the year's target by approximately the same number as last year.
- SOSI is confirmed as 100%, however with the change to Target Headroom, with progressively increasing demand there is less surplus available and the overall assessment is tighter than in previous years which is likely to continue in future years.
- BW's ODI Contribute to the Community end of AMP target is unlikely to be met because there are fewer staff based in Bournemouth following integration with SWW, however the mitigation, as defined in the PC, will be to make a donation to a charity of the Customer View Group's choice.
- SWW's Upstream Thinking is considered to be a leading approach to catchment management.
- The integration of BW into SWW has benefited the Company where good practices from the former independent companies have been applied cross-region. For example:
  - SWW has aligned BW's written complaints process to SWW's by introducing SWW's established pro-active processes to contact customers who have made a written complaint to resolve the matter.
  - SWW has recognised the benefit that BW's network models coverage has provided and has progressed building them for its network.

The results of our audit tests against the scope are summarised in the matrices and exception reports which follow. External assurance of financial information (including in respect of Bournemouth Water performance commitments R-B1 and R-A2) is completed by financial auditors Ernst & Young. We have reported detailed audit observations in each area to management.



**G D Hindley**  
Technical Assurance Director





## ADDITIONAL FINANCIAL ASSURANCE

### Financial information

EY, who are knowledgeable of the Company through their role as statutory auditors and providing an audit opinion on specific areas of Regulatory Reporting, were engaged by the South West Water to perform certain additional assurance over the areas of Regulatory Reporting which are not covered by the audit opinion, including cost assessment tables.

The assurance provided consisted of an overview of the Annual Performance Report and agreed upon procedures ('AUPs') which included walkthroughs of key methodologies, to review and challenge the appropriateness against Ofwat's guidance and consistency of commentaries with the underlying data and supporting calculations.

The scope of their work was determined and agreed by management. EY have discussed and reported their findings to the Board and management.

#### The assurance work covered the following areas:

- Review and consideration of SWW allocation of costs both between the appointed and non-appointed business as well as the appropriateness of allocations to business areas – confirming the cost drivers and methods used
- Disclosures of trading activities with associated companies
- Financial cost assessment information and additional reporting required by Ofwat – including the Financial Flows.

#### Agreed upon procedures:

- Financial Tables (or parts of Tables) agreed to be within scope:
  - agreement of data included in the Tables to underlying records
  - agreement of the calculations in the submission Tables provided by Ofwat to the calculations used by management
  - confirming cumulative values or calculations within the tables to supporting documentation
- Additional Ofwat submissions
  - Agreement of certain data underlying records
  - Review of calculations and methodology for areas of judgement and assessed the compliance with Ofwat's guidance.

#### Review and challenge:

- During the preparation of certain Tables (or parts of Tables) agreed by the Company to be within the scope of the procedures, any assumptions and judgements that management deem to be key in the preparation of those Tables have been identified and reported
- In respect of these Tables EY have:
  - reviewed the Company methodology and confirmed the compliance with Ofwat's Regulatory Accounting Guidelines or further guidance from Ofwat
  - understood management's rationale behind each key judgement/assumption and offered challenge in light of any apparent alternative approaches available
  - considered the appropriateness and consistency of Company commentary on the tables.

The findings from this work have been reported to management and the Board.

## REGULATORY REPORTING

**TABLE 1A – Income statement**

	Adjustments				Total appointed activities £m
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	
Revenue	572,844	4,852	12,289	(7,437)	<b>565,407</b>
Operating costs	(325,721)	(8,073)	(10,854)	2,781	<b>(322,940)</b>
Other operating income	–	2,413	–	2,413	<b>2,413</b>
Operating profit	247,123	(0,808)	1,435	(2,243)	<b>244,880</b>
Other income	–	1,019	1,019	–	–
Interest income	1,232	–	0,026	(0,026)	<b>1,206</b>
Interest expense	(68,518)	(3,189)	–	(3,189)	<b>(71,707)</b>
Other interest expense	–	(0,811)	–	(0,811)	<b>(0,811)</b>
Profit before tax and fair value movements	179,837	(3,789)	2,480	(6,269)	<b>173,568</b>
Fair value gains/(losses) on financial instruments	–	–	–	–	–
Profit before tax	179,837	(3,789)	2,480	(6,269)	<b>173,568</b>
UK Corporation tax	(25,800)	–	(0,459)	0,459	<b>(25,341)</b>
Deferred tax	(5,600)	0,644	(0,029)	0,673	<b>(4,927)</b>
<b>Profit for the year</b>	<b>148,437</b>	<b>(3,145)</b>	<b>1,992</b>	<b>(5,137)</b>	<b>143,300</b>
<b>Dividends</b>	<b>120,300</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>120,300</b>
<b>Tax analysis</b>					
Current year	30,300	–	0,459	(0,459)	<b>29,841</b>
Adjustments in respect of prior years	(4,500)	–	–	–	<b>(4,500)</b>
UK Corporation tax	25,800	–	0,459	(0,459)	<b>25,341</b>
				2016/17 £m	2017/18 £m
<b>Analysis of non-appointed revenue</b>					
Imported sludge				–	–
Tankered waste				1,243	1,488
Other non-appointed revenue				8,742	10,801
<b>Revenue</b>				<b>9,985</b>	<b>12,289</b>

The Company does not have any financial instruments accounted for at fair value through the income statement.

### Non-appointed

Activities outside of the appointed business include property searches, commission from plumbing and drainage insurance, meter reading services to non-household retailers and wastewater providers, moorings and fisheries, rental income from non-appointed properties and energy generation from non-appointed assets. Non-appointed operational costs include the element of depreciation charged to the non-appointed business for the use of assets primarily used in the wholesale business (such as IT assets) and reflect investments in solar and wind turbine installations as well as hydro generation schemes.

## TABLE 1A – Income statement continued

In line with Regulatory Accounting Guidelines (RAGs) the following adjustments between the statutory financial statements and Regulatory Reporting have been completed:

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Interest expense £m	Deferred tax £m	Profit for the year £m
Revenue not recognised under IFRS as deemed uncollectable	6,656	(6,656)	–	–	–	–	–
Net income/operating cost allocations <sup>(1)</sup>	(0,785)	0,785	–	–	–	–	–
Classification of rental income	(1,019)	–	–	1,019	–	–	–
Profit on disposal of fixed assets	–	(2,413)	2,413	–	–	–	–
Capitalised interest, depreciation and tax impacts	–	0,211	–	–	(3,189)	0,644	(2,334)
Pension interest allocation (other interest expense)	–	–	–	–	(0,811)	–	(0,811)
<b>Net adjustments</b>	<b>4,852</b>	<b>(8,073)</b>	<b>2,413</b>	<b>1,019</b>	<b>(4,000)</b>	<b>0,644</b>	<b>(3,145)</b>

(1) Adjustments relate to power generation recognised as a reduction in operating costs for statutory purposes but as non-appointed income for Regulatory Reporting. In addition overhead costs recharged to a subsidiary for retail activities are netted off against the contract value in Regulatory Reporting to fairly reflect the cost of delivering the appointed business's retail activities.

## TABLE 1B – Statement of comprehensive income

	Adjustments				Total appointed activities £m
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	
Profit for the year	148,437	(3,145)	1,992	(5,137)	<b>143,300</b>
Actuarial gains/(losses) on post employment plans	10,152	–	(0,142)	0,142	<b>10,294</b>
Other comprehensive income	17,107	–	–	–	<b>17,107</b>
<b>Total comprehensive income for the year</b>	<b>175,696</b>	<b>(3,145)</b>	<b>1,850</b>	<b>(4,995)</b>	<b>170,701</b>

Actuarial gains/losses are net of tax and allocated based on the deficit associated with the pension scheme member and applying this to the activities associated with their employment history weighted by the time spent in each role, consistent with the approach to allocating pension contributions.

Other comprehensive income relates to cash flow hedges held in the appointed business.

REGULATORY REPORTING

TABLE 1C – Statement of financial position

	Adjustments				Total appointed activities £m
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	
<b>Non-current assets</b>					
Fixed assets	2,970,644	(12,061)	5,262	(17,323)	2,953,321
Intangible assets	52,300	–	–	–	52,300
Investments – loans to Group companies	–	–	–	–	–
Investments – other	3,300	–	–	–	3,300
Financial instruments	–	–	–	–	–
Retirement benefit assets	–	–	–	–	–
<b>Total non-current assets</b>	3,026,244	(12,061)	5,262	(17,323)	3,008,921
<b>Current assets</b>					
Inventories	4,873	–	–	–	4,873
Trade & other receivables	117,617	–	3,471	(3,471)	114,146
Financial instruments	–	–	–	–	–
Cash & cash equivalents	226,958	–	3,165	(3,165)	223,793
<b>Total current assets</b>	349,448	–	6,636	(6,636)	342,812
<b>Current liabilities</b>					
Trade & other payables	(77,933)	27,176	0,500	26,676	(51,257)
Capex creditor	–	(25,296)	–	(25,296)	(25,296)
Borrowings	(48,104)	–	–	–	(48,104)
Financial instruments	(8,442)	–	–	–	(8,442)
Current tax liabilities	0,724	–	(0,224)	0,224	0,948
Provisions	(2,715)	(1,880)	–	(1,880)	(4,595)
<b>Total current liabilities</b>	(136,470)	–	0,276	(0,276)	(136,746)
<b>Net current assets/(liabilities)</b>	212,978	–	6,912	(6,912)	206,066
<b>Non-current liabilities</b>					
Trade & other payables	–	–	–	–	–
Borrowings	(2,246,935)	–	–	–	(2,246,935)
Financial instruments	(8,246)	–	–	–	(8,246)
Retirement benefit obligations	(22,615)	–	(0,582)	0,582	(22,033)
Provisions	–	–	–	–	–
Deferred income – G&C's	(108,691)	108,691	–	108,691	–
Deferred income – adopted assets	–	(108,691)	–	(108,691)	(108,691)
Preference share capital	–	–	–	–	–
Deferred tax	(231,288)	2,060	(0,250)	2,310	(228,978)
<b>Total non-current liabilities</b>	(2,617,775)	2,060	(0,832)	2,892	(2,614,883)
<b>Net assets</b>	621,447	(10,001)	11,342	(21,343)	600,104
<b>Equity</b>					
Called up share capital	250,923	–	–	–	250,923
Retained earnings & other reserves	370,524	(10,001)	11,342	(21,343)	349,181
<b>Total equity</b>	621,447	(10,001)	11,342	(21,343)	600,104

Notes for the statement of financial position are shown on the following page.

## TABLE 1C – Statement of financial position continued

The statement of financial position (on the previous page) reflects the balance sheet as at 31 March 2018.

Both statutory financial statements and Regulatory Reporting is based on International Financial Reporting Standards (IFRS) with the following adjustments to reflect the Regulatory Reporting Guidelines (RAGs).

	Fixed assets £m	Trade & other payables £m	Capex creditors £m	Deferred income – G&C's £m	Deferred income – adopted assets £m	Current/ non-current provisions £m	Deferred tax £m	Net assets £m
Reallocation of capital creditors	-	25,296	(25,296)	-	-	-	-	-
Cumulative capitalised interest, depreciation and tax impact <sup>(1)</sup>	(12,061)	-	-	-	-	-	2,060	(10,001)
Reallocation of deferred income	-	-	-	108,691	(108,691)	-	-	-
Deferred income reallocated to provisions	-	1,880	-	-	-	(1,880)	-	-
<b>Total</b>	<b>(12,061)</b>	<b>27,176</b>	<b>(25,296)</b>	<b>108,691</b>	<b>(108,691)</b>	<b>(1,880)</b>	<b>2,060</b>	<b>(10,001)</b>

(1) Cumulative capitalised interest of £12,485m and depreciation of £0,424m.

### Non appointed

Non-appointed fixed assets reflect investments in solar and wind installations (prior to 2015) as well as hydro generation schemes, fisheries and riverside assets and the fair value of non-appointed leased assets. In addition, investment to support tankered waste activities has been included within non-appointed assets.

Trade and other receivables reflect debt associated with non-appointed activities and trade payables are allocated based on operating costs.

Current tax liabilities represent the tax due on profits with deferred tax reflecting the capital allowances on fixed assets and the pension deficit.

Retirement benefit obligations are allocated based on the deficit associated with the pension scheme member and applying this to the activities within their employment history.

As all of the Company's borrowings have been raised to fund appointee activities, none of these have been apportioned to the non-appointed business.

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TABLE 1D – Statement of cash flows

	Adjustments				Total appointed activities £m
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	
<b>Statement of cash flows</b>					
Operating profit	247,123	(0,808)	1,435	(2,243)	<b>244,880</b>
Other income	–	1,019	1,019	–	–
Depreciation	113,380	(0,211)	0,350	(0,561)	<b>112,819</b>
Amortisation – G&C's	–	–	–	–	–
Changes in working capital	(2,589)	4,957	–	4,957	<b>2,368</b>
Pension contributions	–	(4,957)	–	(4,957)	<b>(4,957)</b>
Movement in provisions	(2,146)	–	–	–	<b>(2,146)</b>
Profit on sale of fixed assets	(2,413)	–	–	–	<b>(2,413)</b>
<b>Cash generated from operations</b>	<b>353,355</b>	<b>–</b>	<b>2,804</b>	<b>(2,804)</b>	<b>350,551</b>
Net interest paid	(47,226)	(4,000)	–	(4,000)	<b>(51,226)</b>
Tax paid	(38,679)	–	(0,509)	0,509	<b>(38,170)</b>
<b>Net cash generated from operating activities</b>	<b>267,450</b>	<b>(4,000)</b>	<b>2,295</b>	<b>(6,295)</b>	<b>261,155</b>
<b>Investing activities</b>					
Capital expenditure	(197,712)	4,000	0,012	3,988	<b>(193,724)</b>
Grants & Contributions	2,316	–	–	–	<b>2,316</b>
Disposal of fixed assets	2,843	–	–	–	<b>2,843</b>
Other	31,938	–	–	–	<b>31,938</b>
Net cash used in investing activities	(160,615)	4,000	0,012	3,988	<b>(156,627)</b>
<b>Net cash generated before financing activities</b>	<b>106,835</b>	<b>–</b>	<b>2,307</b>	<b>(2,307)</b>	<b>104,528</b>
<b>Cash flows from financing activities</b>					
Equity dividends paid	(120,300)	–	–	–	<b>(120,300)</b>
Net loans received	34,328	–	–	–	<b>34,328</b>
Cash inflow from equity financing	–	–	–	–	–
Net cash generated from financing activities	(85,972)	–	–	–	<b>(85,972)</b>
<b>Increase/(decrease) in net cash</b>	<b>20,863</b>	<b>–</b>	<b>2,307</b>	<b>(2,307)</b>	<b>18,556</b>

Commentary for the adjustments within the statement of cash flows to reconcile from the statutory financial statements to Regulatory Reporting, have been noted within the income statement.

**TABLE 1E – Net debt analysis**

	Interest rate risk profile			Total £m
	Fixed rate £m	Floating rate £m	Index linked £m	
Borrowings (excluding preference shares)	1,232.188	557.093	505.758	<b>2,295.039</b>
Preference share capital				–
<b>Total borrowings</b>				<b>2,295.039</b>
Cash				<b>(43.362)</b>
Short-term deposits				<b>(180.431)</b>
<b>Net debt</b>				<b>2,071.246</b>
Gearing				<b>60.36%</b>
Adjusted gearing				<b>60.27%</b>
Full year equivalent nominal interest cost	23.932	6.531	26.006	<b>56.469</b>
Full year equivalent cash interest payment	23.932	6.531	10.017	<b>40.480</b>
<b>Indicative interest rates</b>				
Indicative weighted average nominal interest rate	2.13%	1.23%	5.33%	<b>2.64%</b>
Indicative weighted average cash interest rate	2.13%	1.23%	2.05%	<b>1.89%</b>
Weighted average years to maturity	18.02	19.99	30.98	<b>21.46</b>

South West Water does not have any preference share capital.

The table above reflects the position of the appointed business and excludes the £3.165m of non-appointed cash assumed within short-term deposits. RCV at 31 March 2018 was £3,431m resulting in a gearing ratio of 60.36% for the appointed business.

Fixed and floating debt costs and interest rates are equivalent to the cash interest payments. Only index-linked debt has a differential between the interest charges and cash interest payments, where RPI is accreted into the loan balance.

The adjusted gearing is based on the total cash position (rather than the cash position of the appointed business only).

The difference between adjusted gearing and gearing has increased as a result of higher retail prices index (RPI) inflation this year.

## PRICE REVIEW AND OTHER SEGMENTAL REPORTING

### TABLE 2A – Segmental income statement

	Retail				Wholesale				Total £m
	Household £m	Non- household £m	Water resources £m	Water Network+ £m	Water total £m	Wastewater Network+ £m	Sludge £m	Wastewater total £m	
Revenue – price control	38.783	–		244.447	244.447	278.105		278.105	<b>561.335</b>
Revenue – non price control	–	–		1.689	1.689	2.383		2.383	<b>4.072</b>
Operating expenditure	(29.051)	–	(11.284)	(81.996)	(93.280)	(73.794)	(14.002)	(87.796)	<b>(210.127)</b>
Depreciation – tangible fixed assets	(1.652)	–	(3.139)	(43.553)	(46.692)	(58.542)	(5.430)	(63.972)	<b>(112.316)</b>
Amortisation – intangible fixed assets	(0.347)	–	(0.005)	(0.103)	(0.108)	(0.033)	(0.009)	(0.042)	<b>(0.497)</b>
Other operating income	–	–	0.061	0.937	0.998	1.415	–	1.415	<b>2.413</b>
Operating profit before recharges	7.733	–			107.054			130.093	<b>244.880</b>
Recharges from other segments	(1.298)	–	–	–	–	–	–	–	<b>(1.298)</b>
Recharges to other segments	–	–	0.058	0.617	0.675	0.465	0.158	0.623	<b>1.298</b>
<b>Operating profit</b>	<b>6.435</b>	<b>–</b>			<b>107.729</b>			<b>130.716</b>	<b>244.880</b>
<b>Surface water drainage rebates</b>									<b>3.145</b>

#### Revenue

Revenue within the price control above includes certain grants and contributions (including infrastructure and new connections) which are not noted in table 2I. The reconciliation below outlines the difference between table 2A and table 2I (total appointed revenue).

	£m
Total appointee revenue (table 2A)	565.407
less: connections charges	(4.454)
infrastructure receipts (water and wastewater)	(6.322)
Actual appointed revenue (table 2I)	<b>554.631</b>

There is no retail revenue outside of the price control. Historically this related to non-household customers on non-default tariffs. These revenue streams have been acquired by the retailers in the new non-household market, which opened on 1 April 2017. Wholesale revenue outside the price control reflects fire hydrant charges, retailer activities for developers' income, standpipe hire within the water business unit, and developer activities within the wastewater business.

The reduction in revenue non-price control from prior year (2017 £6.087m) was driven by the now exited non-household retail activities.

#### Operating costs

Operating costs (including depreciation) is based on the methodology outlined on page 75.

#### Other operating costs

Profit on the sale of fixed assets (other operating income) has been allocated based on the underlying asset category which generated the sale, with management and general assets being split pro-rata.

#### Recharges

Recharges to other segments reflect charges for the use of assets, and is equal to the depreciation charged in respect of management and general assets principally used by wholesale business units where part of the cost is recharged to the retail business unit. This excludes charges to non-appointed activities reflected in operating cost in table 1A. The equivalent charge of £0.511m in respect of non-appointed activities has been deducted from operating expenditure. Asset categories used across segments include information technology hardware, software and infrastructure and vehicles.

#### Surface water rebates

Surface water rebates reflects 73,361 customers where there is no connection to the South West Water wastewater network for surface water i.e. rainwater which falls on an impermeable areas of a property such as its roof, drive, hard standing area or car park.



**TABLE 2B – Totex analysis – wholesale**

	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Total £m
<b>Operating expenditure</b>					
Power	2.232	13.981	16.407	1.224	<b>33.844</b>
Income treated as negative expenditure	(0.431)	(0.119)	(0.001)	(0.268)	<b>(0.819)</b>
Abstraction charges/discharge consents	4.718	0.396	3.226	–	<b>8.340</b>
Bulk Supply/Bulk discharge	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>					
– Renewals expensed in year (Infrastructure)	–	5.385	9.890	–	<b>15.275</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	3.060	41.403	36.820	12.286	<b>93.569</b>
Local authority and Cumulo rates	1.705	19.664	5.625	0.760	<b>27.754</b>
<b>Total operating expenditure excluding third party services</b>	<b>11.284</b>	<b>80.710</b>	<b>71.967</b>	<b>14.002</b>	<b>177.963</b>
Third party services	–	1.286	1.827	–	<b>3.113</b>
<b>Total operating expenditure</b>	<b>11.284</b>	<b>81.996</b>	<b>73.794</b>	<b>14.002</b>	<b>181.076</b>
<b>Capital expenditure</b>					
Maintaining the long-term capability of the assets – infra	0.287	12.016	19.922	–	<b>32.225</b>
Maintaining the long-term capability of the assets – non-infra	0.702	40.497	29.996	2.399	<b>73.594</b>
Other capital expenditure – infra	–	7.281	27.003	–	<b>34.284</b>
Other capital expenditure – non-infra	2.640	21.507	7.016	0.497	<b>31.660</b>
Infrastructure network reinforcement	–	1.035	2.035	–	<b>3.070</b>
Total gross capital expenditure excluding third party services	3.629	82.336	85.972	2.896	<b>174.833</b>
Third party services	–	5.076	–	–	<b>5.076</b>
Total gross capital expenditure	3.629	87.412	85.972	2.896	<b>179.909</b>
Grants and contributions	–	9.219	7.934	–	<b>17.153</b>
Totex	14.913	160.189	151.832	16.898	<b>343.832</b>
<b>Total</b>					
Totex including cash items	14.913	160.189	151.832	16.898	<b>343.832</b>

**Operating expenditure**

- South West Water does not have any bulk supply or discharge costs.
- Renewals expensed in the year (Infrastructure) represents expenditure on significant repair and maintenance projects which was initially reported through the capital projects costing system. This expenditure is treated as an expense for the purposes of IFRS reporting and is reported as other operating expenditure.
- Third party services largely reflect costs associated with mains diversions.

**Capital expenditure**

Reflects spend which is recognised within fixed assets as either new assets or maintenance spend associated with enhancing the long-term capability and life of existing assets. It excludes those assets adopted at fair value. Grants & contributions allocations are based on the relevant connection charges, infrastructure charges, requisitioned mains and sewer connections, and are consistent with those recognised in table 2E. Infrastructure network reinforcement expenditure is analysed in more detail in Table 2J.

Capital expenditure on third party services is reported in accordance with the International Financial Reporting Interpretations Committee ruling on the accounting treatment of adopted assets transferred from customers (IFRIC 18). The value represents the cost of assets installed on behalf of developers relating to clean water new connections.

## PRICE REVIEW AND OTHER SEGMENTAL REPORTING

### TABLE 2C – Operating cost analysis – retail

	Household £m	Non-household £m	Total £m
<b>Operating expenditure</b>			
Customer services	9,931	–	<b>9,931</b>
Debt management	2,268	–	<b>2,268</b>
Doubtful debts	11,326	–	<b>11,326</b>
Meter reading	1,351	–	<b>1,351</b>
Services to developers	–	–	–
Other operating expenditure	4,175	–	<b>4,175</b>
Total operating expenditure excluding third party services	29,051	–	<b>29,051</b>
Third party services operating expenditure	–	–	–
Total operating expenditure	29,051	–	<b>29,051</b>
Depreciation – tangible fixed assets	1,652	–	<b>1,652</b>
Amortisation – intangible fixed assets	0,347	–	<b>0,347</b>
<b>Total operating costs</b>	<b>31,050</b>	<b>–</b>	<b>31,050</b>
Debt written off	9,311	–	<b>9,311</b>

#### Operating costs

South West Water's retail activities are largely undertaken by a wholly owned subsidiary Source Contact Management Limited. Cost allocations are based on the policy outlined on page 75 with a detailed methodology available from the website [www.southwestwater.co.uk](http://www.southwestwater.co.uk).

Further commentary on the performance of the retail business is included on page 34.

#### Depreciation

Depreciation reflects the direct depreciation charged for assets used wholly or principally within the retail price controls. This includes:

- customer billing and account software
- meter reading mobile software
- debt initiatives.

#### Debt written off

Debt written off is allocated based on the specific customers, excluding the costs associated with court and debt recovery activity. South West Water's policy for debt write-off is included within the accounting disclosures on page 77.

#### Capital expenditure

Capital expenditure for the retail business is reported in table 4F. Capital expenditure recognised directly in the retail business includes:

- customer service improvement initiatives
- information technology support and costs
- directly attributable transport costs

#### Non-household market

South West Water exited the Non-household retail market on 1 April 2017. Following this date there are no associated retail costs in the non-household price control.

**TABLE 2D – Historic cost analysis of fixed assets – wholesale & retail**

	Wholesale				Retail		Total £m
	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Household £m	Non- household £m	
<b>Cost</b>							
At 1 April 2017	117.763	1,755.625	2,281.765	134.826	20.775	4.487	<b>4,315.241</b>
Disposals	(0.092)	(2.100)	(1.341)	(0.081)	(0.025)	(2.560)	<b>(6.199)</b>
Additions	3.629	86.908	83.323	2.895	1.281	–	<b>178.036</b>
Adjustments	–	–	–	–	1.927	(1.927)	<b>–</b>
Assets adopted at nil cost	–	3.191	4.813	–	–	–	<b>8.004</b>
<b>At 31 March 2018</b>	<b>121.300</b>	<b>1,843.624</b>	<b>2,368.560</b>	<b>137.640</b>	<b>23.958</b>	<b>–</b>	<b>4,495.082</b>
<b>Depreciation</b>							
At 1 April 2017	(32.355)	(495.007)	(810.821)	(73.090)	(16.216)	(1.809)	<b>(1,429.298)</b>
Disposals	0.080	1.796	1.244	0.070	0.025	–	<b>3.215</b>
Adjustments	(0.107)	(0.800)	(2.274)	(0.181)	(1.809)	1.809	<b>(3.362)</b>
Charge for the year	(3.139)	(43.553)	(58.542)	(5.430)	(1.652)	–	<b>(112.316)</b>
<b>At 31 March 2018</b>	<b>(35.521)</b>	<b>(537.564)</b>	<b>(870.393)</b>	<b>(78.631)</b>	<b>(19.652)</b>	<b>–</b>	<b>(1,541.761)</b>
<b>Net book amount at 31 March 2018</b>	<b>85.779</b>	<b>1,306.060</b>	<b>1,498.167</b>	<b>59.009</b>	<b>4.306</b>	<b>–</b>	<b>2,953.321</b>
Net book amount at 1 April 2017	85.408	1,260.618	1,470.944	61.736	4.559	2.678	<b>2,885.943</b>
<b>Depreciation charge for year</b>							
Principal services	(3.139)	(43.553)	(58.542)	(5.430)	(1.652)	–	<b>(112.316)</b>
Third party services	–	–	–	–	–	–	<b>–</b>
<b>Total</b>	<b>(3.139)</b>	<b>(43.553)</b>	<b>(58.542)</b>	<b>(5.430)</b>	<b>(1.652)</b>	<b>–</b>	<b>(112.316)</b>

Fixed assets have been allocated based upon their principal use. For assets which are used across the areas (i.e. management and general), they have been assumed to have principal use within wholesale and are then allocated between water and wastewater.

On 1 April 2017 £2.6m of assets relating to the non-household retail business were acquired by Pennon Water Services Limited, a fellow Pennon Group plc subsidiary and are included in the disposal value.

The net book value includes £174.9m in respect of assets in the course of construction.

Out of the total depreciation charge for the Company of £116.3m, the sum of £1.5m has been charged to capital projects, £1.9m has been offset by deferred income and £112.3m against profits, with £0.6m of assets used by the non-appointed business charged through operating costs.

Additions in the year include assets from new connections in line with IFRIC 18 and include those recognised at their fair value.

The total fair value of assets adopted at nil cost in the year were £3.2m in water and £4.8m in wastewater. In total, cumulative adopted assets have a value of £119.6m. The reduction in the value of assets adopted during the year from 2016/17 reflects the adoption of private pumping stations in October 2016.

## PRICE REVIEW AND OTHER SEGMENTAL REPORTING

**TABLE 2E – Analysis of capital contributions and land sales – wholesale**

	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	Total £m
<b>Grants and contributions – water</b>				
Connection charges (s45)	4.454	–	–	<b>4.454</b>
Infrastructure charge receipts (s146)	3.443	–	–	<b>3.443</b>
Requisitioned mains (s43, s55 & s56)	–	–	0.504	<b>0.504</b>
Other contributions (price control)	0.030	–	–	<b>0.030</b>
Diversions (s185)	0.571	–	–	<b>0.571</b>
Other contributions (non-price control)	0.217	–	–	<b>0.217</b>
<b>Total</b>	<b>8.715</b>	<b>–</b>	<b>0.504</b>	<b>9.219</b>
Value of adopted assets		3.191		<b>3.191</b>
<b>Grants and contributions – wastewater</b>				
Infrastructure charge receipts (s146)	2.882	–	–	<b>2.882</b>
Requisitioned sewers (s100)	–	–	1.570	<b>1.570</b>
Other contributions (price control)	0.166	–	–	<b>0.166</b>
Diversions (s185)	2.190	–	–	<b>2.190</b>
Other contributions (non-price control)	0.046	–	1.080	<b>1.126</b>
<b>Total</b>	<b>5.284</b>	<b>–</b>	<b>2.650</b>	<b>7.934</b>
Value of adopted assets		4.813		<b>4.813</b>

Contributions are principally received from developers in respect of both new connections which are recognised in the income statement and requisitioned mains/sewers which are netted from the capital expenditure of the related assets. Other contributions include other funding from organisations.

Table 2E reflects the reporting changes this year in requiring the separation of other contributions water and wastewater between price control and non-price control activities. Other water contributions (price control) for the year relate to network modelling activities involved with pre-development enquiries. Contributions (non-price control) relate to other rechargeable works, such as planning application costs, buildover applications and charges for remedial works. Other wastewater contributions (price control) for the year similarly relate to network modelling activities for pre-development enquiries and also related charges for inspection of sewer connections. Contributions (non-price control) relate to the review of and responding to planning applications.

Fully netted off capex other contributions (non-price control) relate to sewer inspection and supervision fees (2.5% of construction costs of sewers for adoption) and also includes a contribution from an organisation towards the costs of a specific Downstream Thinking project completed during the year.

	Water £m	Wastewater £m	Total £m
<b>Movements in capitalised grants and contributions</b>			
Brought forward	0.131	–	<b>0.131</b>
Capitalised in year	–	–	<b>–</b>
Amortisation (in income statement)	(0.131)	–	<b>(0.131)</b>
<b>Carried forward</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Land sales</b>			
Proceeds from disposals of protected land	0.898	1.367	<b>2.265</b>

## TABLE 2E – Analysis of capital contributions and land sales – wholesale continued

The movement in the table above represents the remaining deferred income amortisation on a specific Wimbleball Dam water project which expired during the year. There are no other similar grants and contributions.

Disposals of protected land, including those already subject to regulation through Condition K of the licence, have been allocated based on principal site location in line with previously reported figures.

During the year there were two specific sales for net proceeds each above £0.500m, after all associated selling costs. These were a disposal of a decommissioned sewage treatment works in Callington, Cornwall generating net proceeds (after all costs) of £0.713m and, secondly, surplus site office premises located in the Bournemouth area, generating net proceeds of £0.502m.

There were no sales made to any associated company.

## TABLE 2F – Household – revenues by customer type for South West Water

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (000s)	Average household retail revenue per customer £
Unmeasured water only customer	12.406	1.304	<b>13.710</b>	31.903	<b>41</b>
Unmeasured wastewater only customer	1.057	0.093	<b>1.150</b>	2.304	<b>40</b>
Unmeasured water and wastewater customer	81.328	5.634	<b>86.962</b>	109.475	<b>51</b>
Measured water only customer	9.911	1.426	<b>11.337</b>	35.843	<b>40</b>
Measured wastewater only customer	0.686	0.083	<b>0.769</b>	2.570	<b>32</b>
Measured water and wastewater customer	253.649	25.145	<b>278.794</b>	578.156	<b>43</b>
<b>Total</b>	<b>359.037</b>	<b>33.685</b>	<b>392.722</b>	<b>760.251</b>	<b>44</b>

In line with Ofwat guidance the customer numbers are the average over the 12 month period in line with the former June return (table 7). This has led to some slight variations over the prior year. The table below shows the prior year customer numbers calculated on the same basis.

	Number of customers (000s)	Average household retail revenue per customer £
<b>2016/17</b>		
Unmeasured water only customer	32.440	<b>39</b>
Unmeasured wastewater only customer	2.384	<b>38</b>
Unmeasured water and wastewater customer	115.912	<b>52</b>
Measured water only customer	34.738	<b>37</b>
Measured wastewater only customer	2.464	<b>31</b>
Measured water and wastewater customer	554.425	<b>45</b>
<b>Total</b>	<b>742.363</b>	<b>46</b>

The movement in customer numbers from 2016/17 to 2017/18 includes:

- new connections
- changes in void properties
- customers reclassified from non-household following the opening of the market.



## PRICE REVIEW AND OTHER SEGMENTAL REPORTING

**TABLE 2F – Household – revenues by customer type for Bournemouth Water**

	Wholesale charges revenue £m	Retail revenue £m	<b>Total revenue £m</b>	Number of customers (000s)	<b>Average household revenue per customer £</b>
Unmeasured water only customer	7.842	1.469	<b>9.311</b>	55,866	<b>26</b>
Measured water only customer	14.749	3.629	<b>18.378</b>	136,504	<b>27</b>
<b>Total</b>	22.591	5.098	<b>27.689</b>	192,370	<b>27</b>

Numbers of customers relates specifically to the number of properties that are charged at a specific tariff band rate.

In line with Ofwat guidance the customer numbers are the average over the 12 month period in line with the former June return (table 7). This has led to some slight variations over the prior year. The table below shows the prior year customer numbers calculated on the same basis.

	Number of customers (000s)	<b>Average household retail revenue per customer £</b>
Unmeasured water only customer	57,409	<b>26</b>
Measured water only customer	131,873	<b>26</b>
<b>Total</b>	189,282	<b>26</b>

**TABLE 2G – Non-household water – revenues by customer type for South West Water**

	Wholesale charges revenue £m	Total revenue £m	Number of connections (000s)
<b>Non-default tariffs</b>			
<b>BOURNEMOUTH WATER</b>			
Total non-default tariffs (MNPW*)	4.582	4.582	0.003
<b>Default tariffs</b>			
<b>SOUTH WEST WATER</b>			
Standard Unmeasured Water (UW*)	1.192	1.192	2.181
Standard Measured Water (MW*)	47.466	47.466	62.549
Large & Special User 50-100ML Water (HW1*)	4.480	4.480	0.028
Large & Special User 100-150ML Water (HW2*)	2.089	2.089	0.007
Large & Special User 150+ML Water (HW3*)	1.124	1.124	0.002
Special agreements	0.006	0.006	0.064
<b>BOURNEMOUTH WATER</b>			
Standard Unmeasured Water (UW*)	0.366	0.366	1.015
Standard Measured Water (NHH1*)	2.023	2.023	10.531
Large User 0.75-2ML Water (NHH2*)	1.269	1.269	0.925
Large User 2-4ML Water (NHH3*)	1.029	1.029	0.335
Large User 4-5ML Water (NHH4*)	1.502	1.502	0.222
Large User 10-50ML Water (NHH5*)	1.009	1.009	0.059
Large User 50M+L Water (NHH6*)	0.295	0.295	0.004
Total default tariffs	63.850	63.850	77.922
<b>Total</b>	<b>68.432</b>	<b>68.432</b>	<b>77.925</b>

South West Water was granted permission by the Secretary of State to withdraw from the non-household retail market with effect from 1 April 2017. On this date all of its non-household customers were transferred to Pennon Water Services Ltd (the Acquiring Licensee). Wholesale non-household revenue is now recognised in line with the Central Market Operating System (CMOS), South West Water has no non-household retail revenue.

Following the opening of the non-household retail market and updated guidance from Ofwat, the only remaining non-default tariff relates to one specific contract in the Bournemouth Water area. This revenue is recognised through the CMOS system as measured non potable. The number of connections shown against this revenue (3) is as stated in the CMOS system, historically these were counted as a single connection.

South West Water non-household revenue is now recognised in line with the classifications within the CMOS system. This has caused some switches between categories when compared to prior years, most notably on the large user tariffs.

\* References are to the principal Central Market Operating System (CMOS) tariff codes.



## PRICE REVIEW AND OTHER SEGMENTAL REPORTING

**TABLE 2H – Non-household wastewater – revenues by customer type for South West Water**

	Wholesale charges revenue £m	<b>Total revenue £m</b>	Number of connections (000s)
<b>Non-default tariffs</b>			
Total non-default tariffs	–	–	–
<b>Default tariffs</b>			
Standard Unmeasured Sewerage	1.982	<b>1.982</b>	1.802
Standard Measured Sewerage	48.023	<b>48.023</b>	41.563
Large & Special User 50-100ML Sewerage (HS1*)	1.564	<b>1.564</b>	0.006
Large & Special User 100+ML Sewerage (HS2*)	1.377	<b>1.377</b>	0.002
Special Agreements Sewerage	2.486	<b>2.486</b>	0.062
Trade Effluent	6.284	<b>6.284</b>	0.575
Total default tariffs	61.716	<b>61.716</b>	44.010
<b>Total</b>	61.716	<b>61.716</b>	44.010

South West Water was granted permission by the Secretary of State to withdraw from the non-household retail market with effect from 1 April 2017. On this date all of its non-household customers were transferred to Pennon Water Services Ltd (the Acquiring Licensee). Wholesale non-household revenue is now recognised in line with the Central Market Operating System (CMOS), South West Water has no non-household retail revenue.

South West Water non-household revenue is now recognised in line with the classifications within the CMOS system. This has reduced the large users from three volume categories to the current two.

\* References are to the principal Central Market Operating System (CMOS) tariff codes.



**TABLE 2I – Revenue analysis & wholesale control reconciliation for South West Water**

	Household £m	Non-household £m	Total £m
<b>Wholesale charge – water</b>			
Unmeasured	41.706	1.192	<b>42.898</b>
Measured	103.822	55.165	<b>158.987</b>
Third party revenue	–	–	–
<b>Total</b>	<b>145.528</b>	<b>56.357</b>	<b>201.885</b>
<b>Wholesale charge – wastewater</b>			
Unmeasured	53.085	1.982	<b>55.067</b>
Measured	160.424	59.734	<b>220.158</b>
Third party revenue	–	–	–
<b>Total</b>	<b>213.509</b>	<b>61.716</b>	<b>275.225</b>
<b>Wholesale total</b>	<b>359.037</b>	<b>118.073</b>	<b>477.110</b>
<b>Retail revenue</b>			
Unmeasured	7.031	–	<b>7.031</b>
Measured	26.654	–	<b>26.654</b>
Other third party revenue	–	–	–
<b>Retail total</b>	<b>33.685</b>	<b>–</b>	<b>33.685</b>
<b>Third party revenue – non-price control</b>			
Bulk supplies – water			<b>0.049</b>
Bulk supplies – wastewater			–
Other third party revenue			<b>3.721</b>
<b>Total third party revenue – non-price control</b>			<b>3.770</b>
<b>Principal services – non-price control</b>			
Other appointed revenue			–
<b>Total appointed revenue</b>			<b>514.565</b>

Third party revenue within the price control reflects income on development planning and third party revenue outside the controls includes mains and sewer diversions, standpipe hire and other rechargeable works. Bulk supplies relate to treated water supplies to the neighbouring water company.

	Water £m	Wastewater £m	Total £m
Wholesale revenue governed by price control	201.885	275.225	<b>477.110</b>
Grants & contributions	6.977	4.631	<b>11.608</b>
<b>Total revenue governed by wholesale price control</b>	<b>208.862</b>	<b>279.856</b>	<b>488.718</b>
Amount assumed in wholesale determination	204.432	270.570	<b>475.002</b>
Adjustment for in-period ODI revenue	–	–	–
Adjustment for WRFIM	(6.419)	(3.671)	<b>(10.090)</b>
Total assumed revenue	198.013	266.899	<b>464.912</b>
<b>Difference</b>	<b>10.849</b>	<b>12.957</b>	<b>23.806</b>

The original revenue assumed in wholesale determination (£475.002m) has been reduced by an adjustment for WRFIM (£10.090m), to reflect an over recovery of revenue in the financial year ended 31 March 2016. Commentary on appointed revenue and the comparison with the 2014 Financial Determination is included on page 32.

As a wholesaler within the non-household market, which opened on 1 April 2017, we currently work with more than 16 different retailers, including Pennon Water Services, and our wholesale service desk has been operating effectively. As a wholesaler in this new market, we welcome the opportunity to facilitate competition. All participants in the market are subject to performance criteria for which penalties can be incurred. During the first year of the market, performance was monitored but no charges were levied by MOSL.

## PRICE REVIEW AND OTHER SEGMENTAL REPORTING

**TABLE 2I – Revenue analysis & wholesale control reconciliation for Bournemouth Water**

	Household £m	Non-household £m	Total £m
<b>Wholesale charge – water</b>			
Unmeasured	7,842	0,366	<b>8,208</b>
Measured	14,749	7,498	<b>22,247</b>
Third party revenue	–	4,211	<b>4,211</b>
<b>Total</b>	<b>22,591</b>	<b>12,075</b>	<b>34,666</b>
<b>Wholesale total</b>	<b>22,591</b>	<b>12,075</b>	<b>34,666</b>
<b>Retail revenue</b>			
Unmeasured	1,469	–	<b>1,469</b>
Measured	3,629	–	<b>3,629</b>
Other third party revenue	–	–	<b>–</b>
<b>Retail total</b>	<b>5,098</b>	<b>–</b>	<b>5,098</b>
<b>Third party revenue – non-price control</b>			
Bulk supplies – water			<b>–</b>
Other third party revenue			<b>0,302</b>
<b>Total third part revenue – non-price control</b>			<b>0,302</b>
<b>Principal services – non-price control</b>			
Other appointed revenue			<b>–</b>
<b>Total appointed revenue</b>			<b>40,066</b>

Third party revenue within the price control reflects income on development planning and third party revenue outside the controls includes standpipe hire and other rechargeable works.

Bulk supplies relate to treated water supplies to the neighbouring water company.

Appointed revenue outside of the price control reflects retail revenue for non-household customers on non-default tariffs as noted in table 2A.

	Water £m	Total £m
Wholesale revenue governed by price control	34,666	<b>34,666</b>
Grants & contributions	1,424	<b>1,424</b>
<b>Total revenue governed by wholesale price control</b>	<b>36,090</b>	<b>36,090</b>
Amount assumed in wholesale determination	35,550	<b>35,550</b>
Adjustment for in-period ODI revenue	–	<b>–</b>
Adjustment for WRFIM	(0,947)	<b>(0,947)</b>
Total assumed revenue	34,603	<b>34,603</b>
<b>Difference</b>	<b>1,487</b>	<b>1,487</b>

The amount assumed in the wholesale determination is £35.78m less the small company premium of £0.23m, which has been passed back to customers through the annual tariffs as outlined during the company merger.

The main driver of the reduction in other third party revenue from 2016/17 is £0.55m of revenue for meter reading services for non-household customers that are now classified as non-appointed.

**Table 2J – Infrastructure network reinforcement costs**

	Network reinforcement capex £m	On site/site specific capex (memo only £m)
<b>Wholesale water network+ (treated water distribution)</b>		
Distribution and trunk mains	0.837	–
Pumping and storage facilities	0.198	–
Other	–	–
<b>Total</b>	<b>1.035</b>	<b>–</b>
<b>Wholesale wastewater network+ (sewage collection)</b>		
Foul and combined systems	2.354	–
Surface water only systems	0.282	–
Pumping and storage facilities	–	–
Other	(0.601)	–
<b>Total</b>	<b>2.035</b>	<b>–</b>

Infrastructure network reinforcement expenditure all relates to capacity enhancement, including some new assets, relating to the treated water distribution and sewage collection business units. The values include expenditure on relevant non-infrastructure assets. The items included this year are water mains, water pumping stations and sewers. There was no relevant expenditure on storage facilities such as clean water service reservoirs and water towers. There was a small amount of expenditure on wastewater storage assets principally in the Plymouth area. There was also no relevant expenditure on pressure management, district metering or valves.

Within Wholesale water network+ area there was relevant expenditure to construct a new water main providing water supply resilience and capacity to Wimborne, Dorset where significant housing growth is planned.

Relevant expenditure within Wholesale wastewater network+ also occurred in the Plymouth area and included storage, surface water separation and combined sewer overflow (CSO) work.

The credit reported under wholesale wastewater other relates to favourable settlement of contractual issues arising on a major sewerage contract.

There was no relevant expenditure relating to assets constructed on sites owned by developers.

## PERFORMANCE SUMMARY

**TABLE 3A – Outcome performance table for South West Water (2012/13 price base)**

	Units	2017/18 performance level – actual	2017/18 CPL met?
W-A1 Compliance with water quality standard	%	99.96	No
W-A2 Taste, smell and colour contacts	nr/1,000 pop	2.20	Yes
W-A3 Asset reliability (pipes)	category	Stable	Yes
W-A4 Asset reliability (process)	category	Stable	Yes
W-A5 Duration of interruptions in supply (hours/property)	time	0.369	No
W-B1 Water restrictions placed on customers (number)	nr	0	Yes
W-B2 Ability to move water around the network	text	Partial	N/A
W-B3 Leakage levels (megalitres a day, Ml/d)	nr	83	Yes
W-B4 Time taken to fix significant leaks (days)	nr	2.93	N/A
W-B5 Security of Supply Index (SoSI)	score	100	N/A
W-C1 Supplies interrupted due to flooded South West Water sites	nr	0	N/A
W-D1 Operational customer contacts resolved first time (%)	%	96.1	Yes
W-E1 Sustainable abstractions (EA/WFD classification)	nr	0	N/A
W-E2 Sustainable abstractions (Environment Agency water stress status)	category	Moderate	Yes
W-E3a Catchment management (number of acres)	nr	7,997	N/A
W-E3b Catchment management (number of farms)	nr	1,290	N/A
W-E4 Pollution incidents (category 1 and 2)	nr	0	Yes
W-E5 Pollution incidents (category 3 and 4)	nr	18	No
W-E6 Operational carbon emissions (ktCO <sub>2</sub> e)	nr	57.0	N/A
W-E7 Energy from renewable sources (%)	%	8.97	N/A
W-F1 Customers paying a metered bill	%	81.8	No
S-A1 Internal sewer flooding incidents	nr	141	Yes
S-A2 External sewer flooding incidents	nr	2,924	Yes
S-A3 Odour contacts (wastewater treatment works)	nr	242	Yes
S-A4 Asset reliability (pipes)	category	Stable	Yes
S-A5 Asset reliability (process)	category	Stable	Yes
S-A6 Compliance with sludge standard (%)	%	100	Yes
S-B1 Operational customer contacts resolved first time (%)	%	91.6	No
S-C1 Wastewater treatment numeric compliance (%)	%	97.1	No
S-C2 Wastewater population equivalent sanitary compliance (%)	%	99.9	N/A
S-C3 Wastewater descriptive works permit compliance (%)	%	100.0	Yes
S-C4 Pollution incidents (category 1 and 2)	nr	3	No
S-C5 Pollution incidents (category 3 and 4)	nr	237	No
S-C6 Operational carbon emissions (ktCO <sub>2</sub> e)	nr	83.2	N/A
S-C7 Energy from renewable sources (%)	%	3.95	N/A
S-D1 Bathing water quality (non-compliant waters due to SWW assets**)	nr	0	Yes
S-D2 Combined sewer overflow spills (number)*	nr	N/A	N/A
S-D3 River water quality improved (km)	nr	156	N/A
R-A1 Customer overall satisfaction (%)	%	91.0	N/A
R-A2 Service incentive mechanism (SIM)	score	84.5	N/A
R-A3 Customer satisfaction with value for money (%)	%	62.0	N/A
R-B1 Customers assisted by water poverty initiatives	nr	29,631	N/A

Based on the ODI performance for the year £2.6574m of net reward has been recognised with £0.2698m (net penalty) assumed accrued for 'in period' adjustments and £2.9272m (net reward) adjusted at the end of the period. Rewards or penalties at 31 March 2018 have been calculated using the incentive rates and definitions consistent with Ofwat's 'Setting price controls for 2015-20. Final price control determination notice: company-specific appendix – South West Water'. Incentive values and rates are presented using 2012/13 prices.

\* Measure to be developed for the 2020-2025 period.

\*\* The number of bathing waters failing the EU Bathing Water Directive (more stringent Directive from 2015) where failure was allocated to South West Water by the Environment Agency, therefore no direct comparable 2014-15 performance level is available. The number of non-compliant bathing waters is expressed here as an absolute number, whereas in the 2014 Final Determination it is expressed as a negative number.

2017/18 reward or penalty (in-period ODIs)	2017/18 reward or penalty (in-period ODIs) £m (4 DPs)	2017/18 notional reward or penalty accrued	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)	See Page
Penalty deadband	N/A	N/A	N/A	N/A	N/A	10
Reward deadband	N/A	N/A	N/A	N/A	N/A	10
N/A	N/A	N/A	N/A	N/A	N/A	10
N/A	N/A	N/A	N/A	N/A	N/A	10
N/A	N/A	Penalty	(0.8952)	Penalty	(1.7016)	10
N/A	N/A	Reward	1.6240	Reward	4.8720	14
N/A	N/A	N/A	N/A	N/A	N/A	*
Reward	0.4030	N/A	N/A	Reward	1.2090	14
N/A	N/A	N/A	N/A	N/A	N/A	14
N/A	N/A	N/A	N/A	N/A	N/A	14
N/A	N/A	N/A	N/A	N/A	N/A	18
Reward	0.1333	N/A	N/A	Reward	0.4468	16
N/A	N/A	N/A	N/A	N/A	N/A	22
N/A	N/A	N/A	N/A	N/A	N/A	22
N/A	N/A	N/A	N/A	N/A	N/A	24
N/A	N/A	N/A	N/A	N/A	N/A	24
N/A	N/A	N/A	N/A	N/A	N/A	22
Penalty	(0.0220)	N/A	N/A	Penalty	(0.0660)	22
N/A	N/A	N/A	N/A	N/A	N/A	24
N/A	N/A	N/A	N/A	N/A	N/A	24
N/A	N/A	Penalty deadband	N/A	Penalty	(0.2140)	30
N/A	N/A	Reward	0.2040	Reward	0.2040	20
N/A	N/A	Reward	0.2760	Penalty	(0.2500)	20
N/A	N/A	Reward	0.2244	Reward	0.7660	20
N/A	N/A	N/A	N/A	N/A	N/A	20
N/A	N/A	N/A	N/A	N/A	N/A	20
N/A	N/A	N/A	N/A	N/A	N/A	20
Penalty	(0.0714)	N/A	N/A	Penalty	(0.3214)	16
N/A	N/A	N/A	N/A	N/A	N/A	22
N/A	N/A	N/A	N/A	N/A	N/A	22
N/A	N/A	N/A	N/A	N/A	N/A	22
Penalty	(0.3460)	N/A	N/A	Penalty	(2.7680)	22
Penalty	(0.3667)	N/A	N/A	Penalty	(0.7939)	22
N/A	N/A	N/A	N/A	N/A	N/A	24
N/A	N/A	N/A	N/A	N/A	N/A	24
N/A	N/A	Reward	1.4940	Reward	6.7230	26
N/A	N/A	N/A	N/A	N/A	N/A	*
N/A	N/A	N/A	N/A	N/A	N/A	26
N/A	N/A	N/A	N/A	N/A	N/A	16
N/A	N/A	N/A	N/A	N/A	N/A	16
N/A	N/A	N/A	N/A	N/A	N/A	16
N/A	N/A	N/A	N/A	N/A	N/A	30

Total AMP6 forecast at March 2020 reflects the cumulative rewards and penalties achieved in the first three years of the regulatory period. Of the £81m cumulative net reward, £2.3m net penalty maybe reflected in the period and £10.4m net reward recognised at the end of the period. Forecasts for the remaining two years have not been included, however South West Water remains on track to deliver 2020 targets and is focused on delivering improvements for customers and the environment.



## PERFORMANCE SUMMARY

**TABLE 3A – Outcome performance table for Bournemouth Water  
(2012/13 price base)**

	Units	2017/18 performance level – actual	2017/18 CPL met?
W-A1 Customer contacts: taste and appearance	nr/1,000 pop	0.82	Yes
W-A2 Water Quality – mean zonal compliance	%	100.00	Yes
W-B1 Leakage	MI/d	19.11	N/A
W-B2 Large scale interruptions	thousands	4.3	N/A
W-B3 Average length of supply interruptions	time	0.7	Yes
W-B4 Serviceability of assets	category	Stable	Yes
W-B5 Meters installed	nr	6,298	N/A
W-B6 Per capita consumption	ml/h/d	141.0	N/A
W-C1 Repairing visible leaks	%	62.4	N/A
W-D1 Energy used in water delivery	kwh/MI	604.93	N/A
W-D2 Supporting a natural water environment	Met/Not met	Met	N/A
W-E1 Contribute to our community	days	28	N/A
R-A1 Customer Service (SIM)	nr	87.6	N/A
R-A2 New customer relationship management system	£m	1.08	N/A
R-B1 Fair customer bills	%	3.03	N/A

2017/18 reward or penalty (in-period ODIs)	2017/18 reward or penalty (in-period ODIs) £m (4 DPs)	2017/18 notional reward or penalty accrued	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)	See Page
N/A	N/A	N/A	N/A	N/A	N/A	12
N/A	N/A	N/A	N/A	N/A	N/A	12
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	31
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	17
N/A	N/A	N/A	N/A	N/A	N/A	25
N/A	N/A	N/A	N/A	N/A	N/A	25
N/A	N/A	N/A	N/A	N/A	N/A	29
N/A	N/A	N/A	N/A	N/A	N/A	17
N/A	N/A	N/A	N/A	N/A	N/A	17
N/A	N/A	N/A	N/A	N/A	N/A	31

Total AMP6 forecast at March 2020 reflects the cumulative rewards and penalties achieved in the first three years of the regulatory period. Forecasts for the remaining two years have not been included, however South West Water remains on track to deliver 2020 targets and is focused on delivering improvements for customers and the environment.

## PERFORMANCE SUMMARY

### TABLE 3B – Sub-measure performance table for South West Water

	Unit	2017/18 performance level – actual	2017/18 CPL met?
W-A3(i) Asset reliability (pipes) – Total bursts	nr	2,496	Yes
W-A3(ii) Asset reliability (pipes) – Interruptions > 12 hours	nr	716	Yes
W-A3(iii) Asset reliability (pipes) – Iron non-compliance	%	0.11	Yes
W-A3(iv) Asset reliability (pipes) – DG2 Pressure	nr	161	Yes
W-A3(v) Asset reliability (pipes) – Customer contacts – discolouration	nr	1.70	Yes
W-A3(vi) Asset reliability (pipes) – Distribution index TIM*	%	0.04	Yes
W-A4(i) Asset reliability (process) – WTW coliforms non-compliance	%	0.01	Yes
W-A4(ii) Asset reliability (process) – Service reservoir coliforms non-compliance	%	0.00	Yes
W-A4(iii) Asset reliability (process) – Turbidity non-compliance	nr	0	Yes
W-A4(iv) Asset reliability (process) – Enforcement incidents	nr	0	Yes
W-A4(v) Asset reliability (process) – Unplanned maintenance	nr	2,606	Yes
S-A4(i) Asset reliability (pipes) – Sewer collapses	nr	89	Yes
S-A4(ii) Asset reliability (pipes) – Pollution incidents (CSO+RM+FS)	nr	96	Yes
S-A4(iii) Asset reliability (pipes) – Properties flooded due to other causes	nr	68	Yes
S-A4(iv) Asset reliability (pipes) – Properties flooded due to overloaded sewers**	nr	12	Yes
S-A4(v) Asset reliability (pipes) – Sewer blockages	nr	3,285	Yes
S-A4(vi) Asset reliability (pipes) – Equipment failures	nr	244	Yes
S-A5(i) Asset reliability – Sewage Treatment works (STW)	%	2.90	Yes
S-A5(ii) Asset reliability – Population equivalent (PE)	%	0.06	Yes
S-A5(iii) Unplanned maintenance	nr	6,109	Yes

All sub measures are in respect of South West Water's Asset Reliability measures shown in table 3A. All sub-measures are stable. In 2016/17 all sub measures except for the supply interruptions >12 months were stable with that sub measure being marginal. South West Water implemented a number of targeted interventions and operational change initiatives during the year to return this measure to 'stable' during the year.

### TABLE 3B – Sub-measure performance table for Bournemouth Water

	Unit	2017/18 performance level – actual	2017/18 CPL met?
Serviceability of assets – infrastructure: Total bursts	nr	283	Yes
Serviceability of assets – infrastructure: Interruptions > 12 hours	nr	5	Yes
Serviceability of assets – infrastructure: Iron non-compliance (as 100-Mean Zonal)	%	0.00	Yes
Serviceability of assets – infrastructure: DG2 pressure	nr	0	Yes
Serviceability of assets – infrastructure: Customer contacts – discolouration	nr	0.22	Yes
Serviceability of assets – non-infrastructure: Water treatment works coliforms non-comp'	%	0.05	Yes
Serviceability of assets – non-infrastructure: Service reservoir coliforms non-compliance	%	0.00	Yes
Serviceability of assets – non-infrastructure: Turbidity	nr	0	Yes
Serviceability of assets – non-infrastructure: Enforcement incidents	nr	0	Yes
Serviceability of assets – non-infrastructure: Unplanned maintenance	nr	221	Yes

### TABLE 3C

AIM table is not applicable to South West Water Limited in either the original South West Water area or the Bournemouth Water area.



**TABLE 3D – SIM table for South West Water**

	Units	Score
<b>Qualitative performance</b>		
1st survey score	score	4.37
2nd survey score	score	4.28
3rd survey score	score	4.62
4th survey score	score	4.44
Qualitative SIM score (out of 75)	score	<b>64.13</b>
<b>Quantitative performance</b>		
Total contact score	score	91.63
Quantitative SIM score (out of 25)	calc	<b>20.42</b>
<b>SIM score</b>		
Total annual SIM score (out of 100)	calc	<b>84.55</b>

**TABLE 3D – SIM table for Bournemouth Water**

	Units	Score
<b>Qualitative performance</b>		
1st survey score	score	4.42
2nd survey score	score	4.50
3rd survey score	score	4.36
4th survey score	score	4.54
Qualitative SIM score (out of 75)	calc	<b>64.88</b>
<b>Quantitative performance</b>		
Total contact score	score	45.42
Quantitative SIM score (out of 25)	calc	<b>22.73</b>
<b>SIM score</b>		
Total annual SIM score (out of 100)	calc	<b>87.61</b>

SIM (Service Incentive Mechanism), an industry-wide measure of customer service, performance has improved in both operational areas. See pages 16 to 17 for further details concerning our customer service performance.



## ADDITIONAL REGULATORY INFORMATION

### TABLE 4A – Non-financial information for South West Water

	Current year	
	Unmeasured	Measured
<b>Retail household</b>		
Number of void households (000s)	5.415	2.873
Per capita consumption (excluding supply pipe leakage) l/h/d	197.86	123.86

	Water MI/d	Wastewater MI/d
<b>Wholesale volume</b>		
Bulk supply export	0.070	–
Bulk supply import	–	–
Distribution input	441.820	

### TABLE 4A – Non-financial information for Bournemouth Water

	Current year	
	Unmeasured	Measured
<b>Retail household</b>		
Number of void households (000s)	0.403	0.564
Per capita consumption (excluding supply pipe leakage) l/h/d	157.94	133.11

	Water MI/d
<b>Wholesale volume</b>	
Bulk supply export	–
Bulk supply import	–
Distribution input	145.53

Bulk supply exports relate to the supply of treated water to the neighbouring water company.

**TABLE 4B – Wholesale totex analysis**

	Current year		Cumulative 2015-20	
	Water £m	Wastewater £m	Water £m	Wastewater £m
<b>Actual totex (1)</b>				
Actual totex	175.102	168.730	491.700	516.449
<b>Items excluded from the menu (2)</b>				
Third party costs	6.362	1.827	15.074	6.184
Pension deficit recovery payments	–	–	9.207	7.467
Other 'Rule book' adjustments	0.861	0.326	2.425	4.866
<b>Total items excluded from the menu</b>	<b>7.223</b>	<b>2.153</b>	<b>26.706</b>	<b>18.517</b>
<b>Transition expenditure</b>				
Transition expenditure	–	–	1.614	0.908
<b>Adjusted actual totex</b>				
Adjusted actual totex	167.879	166.577	466.608	498.840
Adjusted actual totex base year prices	149.416	148.256	427.919	458.118
<b>Allowed totex</b>				
Allowed totex based on final menu choice – base year prices (totex for input to PAYG)	171.303	176.776	508.455	561.757

Actual totex in base year prices is calculated using actual average inflation, of 3.7% for 2017/18.

Commentary on the difference between actual totex and that allowed within the 2014 Final Determination is included on page 33.

Third party costs include both operational and capital expenditure consistent with table 2B.

## ADDITIONAL REGULATORY INFORMATION

### TABLE 4B – Wholesale totex analysis continued

In line with the PR14 reconciliation tables methodology and to ensure consistency with the PR19 process we have reviewed the comparison of actual to allowed totex in the FD. As a result items of transition and specific rulebook adjustments cumulatively for the first three years of K6 have been updated.

	2015/16	2016/17	2017/18	Cumulative
<b>(1) Actual totex (£m)</b>				
Water	147,698	168,900	175,102	<b>491,700</b>
Wastewater	166,153	181,566	168,730	<b>516,449</b>

#### (2) Items excluded from the menu

	2015/16		2016/17		2017/18		Cumulative	
	Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater
<b>Menu adjustments (£m)</b>								
Third party costs	4,146	2,347	<b>4,566</b>	<b>2,010</b>	6,362	1,827	<b>15,074</b>	<b>6,184</b>
Pension deficit recovery payments	9,207	7,467	<b>0,000</b>	<b>0,000</b>	0,000	0,000	<b>9,207</b>	<b>7,467</b>
Other 'Rule book' adjustments	0,644	1,860	<b>0,920</b>	<b>2,680</b>	0,861	0,326	<b>2,425</b>	<b>4,866</b>
<b>Total items excluded from the menu</b>	<b>13,997</b>	<b>11,674</b>	<b>5,486</b>	<b>4,690</b>	<b>7,223</b>	<b>2,153</b>	<b>26,706</b>	<b>18,517</b>

Third party costs – costs mainly reflect mains diversions activity.

Pension deficit recovery payments for 2017/18 were advanced into previous years. Payments will recommence in 2018/19. Three years worth of payments were advanced into 2015/16 as reflected in the cumulative position. Payments will commence again in 2018/19.

#### Other rulebook adjustments

- 2015/16 includes the fines and legal costs associated with three wastewater prosecution payments.
- 2016/17 as reported in the 2016/17 APR this includes a HSE fine and associated costs.
- 2017/18 includes all customer compensation payments made as a result of the extreme weather conditions in March 2018.

#### (3) Transition expenditure

	FD Assumption (£m)	Actual (£m)
<b>Transition expenditure</b>		
Water	<b>1,200</b>	<b>1,614</b>
Wastewater	<b>0,980</b>	<b>0,908</b>

In line with our 2020-25 business plan, South West Water planned transition expenditure in 2014/15 for both water and wastewater in preparation for the delivery of specific programmes. The values assumed are based on actual spend.

**TABLE 4C – Forecast impact of performance on RCV**

	Water £m	Wastewater £m
Cumulative totex over/underspend so far in the price control period	(91.604)	(117.882)
Customer share of cumulative totex over/underspend	(40.122)	(52.929)
RCV element of customer share of cumulative totex over/underspend	(15.969)	(26.094)
Adjustment for ODI rewards or penalties	(1.947)	8.234
RCV determined at FD at 31 March	1,577.050	1,854.164
<b>Projected 'shadow' RCV</b>	<b>1,559.134</b>	<b>1,836.304</b>

RCV element of totex underspend is based on specific pay-as-you-go ratios.

	Water	Wastewater	Total
Cumulative outperformance (in March 2018 prices)	(91.604)	(117.882)	<b>(209.486)</b>
Customer share of totex underspend	43.8%	44.9%	
RCV percentage of customer share of totex underspend	39.8%	49.3%	
RCV element of customer share of totex underspend	(15.969)	(26.094)	<b>(42.063)</b>

Cumulative totex outperformance excludes the pension deficit contributions with the underspend inflated into outturn prices, based on the rates assumed for RCV at March 2018.

Outperformance is shared between customers and the company based on a 45:55 split for water and a 45:55 split on wastewater.

Pay-as-you-go rates are based on those included within the 2014 Final Determination, with water PAYG reflecting the weighted average cumulative PAYG ratio for South West Water and Bournemouth Water totex allowances.

South West Water has 11 outcome delivery incentives (ODIs) which are recognised as adjustments to RCV. Detailed analysis of ODI performance is included in table 3A and commentary is included throughout the Annual Performance Report.

## ADDITIONAL REGULATORY INFORMATION

### TABLE 4D – Wholesale totex analysis – water

	Water resources					Network+	Total
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
<b>Operating expenditure</b>							
Power	–	2.232	1.083	–	10.518	2.380	<b>16.213</b>
Income treated as negative expenditure	–	(0.431)	(0.021)	–	(0.087)	(0.011)	<b>(0.550)</b>
Abstraction charges/discharge consents	4.718	–	0.229	–	0.154	0.013	<b>5.114</b>
Bulk supply	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>							
– Renewals expensed in year (Infrastructure)	–	–	–	–	–	5.385	<b>5.385</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	0.041	3.019	1.336	0.001	18.374	21.692	<b>44.463</b>
Local authority and Cumulo rates	–	1.705	0.500	–	2.203	16.961	<b>21.369</b>
<b>Total operating expenditure excluding third party services</b>	<b>4.759</b>	<b>6.525</b>	<b>3.127</b>	<b>0.001</b>	<b>31.162</b>	<b>46.420</b>	<b>91.994</b>
Third party services	–	–	–	–	–	1.286	<b>1.286</b>
<b>Total operating expenditure</b>	<b>4.759</b>	<b>6.525</b>	<b>3.127</b>	<b>0.001</b>	<b>31.162</b>	<b>47.706</b>	<b>93.280</b>
<b>Capital expenditure</b>							
Maintaining the long-term capability of the assets – infra	–	0.287	0.235	–	–	11.781	<b>12.303</b>
Maintaining the long-term capability of the assets – non-infra	–	0.702	0.075	–	28.686	11.736	<b>41.199</b>
Other capital expenditure – infra	–	–	–	–	–	7.281	<b>7.281</b>
Other capital expenditure – non-infra	–	2.640	–	–	17.975	3.532	<b>24.147</b>
Infrastructure network reinforcement	–	–	–	–	–	1.035	<b>1.035</b>
<b>Total gross capital expenditure (excluding third party)</b>	<b>–</b>	<b>3.629</b>	<b>0.310</b>	<b>–</b>	<b>46.661</b>	<b>35.365</b>	<b>85.965</b>
Third party services	–	–	–	–	–	5.076	<b>5.076</b>
<b>Total gross capital expenditure</b>	<b>–</b>	<b>3.629</b>	<b>0.310</b>	<b>–</b>	<b>46.661</b>	<b>40.441</b>	<b>91.041</b>
Grants and contributions	–	–	–	–	–	9.219	<b>9.219</b>
<b>Totex</b>	<b>4.759</b>	<b>10.154</b>	<b>3.437</b>	<b>0.001</b>	<b>77.823</b>	<b>78.928</b>	<b>175.102</b>
<b>Cash expenditure</b>							
Pension deficit recovery payments	–	–	–	–	–	–	<b>–</b>
Other cash items	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	<b>4.759</b>	<b>10.154</b>	<b>3.437</b>	<b>0.001</b>	<b>77.823</b>	<b>78.928</b>	<b>175.102</b>

Total capital expenditure is similar in both 2016/17 (£87.947m) and 2017/18 (£91.041m). Within these totals expenditure reported for the water treatment unit has increased by £11.217m (2017/18: £46.661m, 2016/17: £35.444m) and treated water distribution reduced by £7.782m (2017/18: £40.441m, 2016/17 £48.223m). The changes are largely explained by a revised analysis for the Plymouth Mayflower Water Treatment Works projects, which, combined with a slightly higher level of project expenditure, have increased non-infrastructure expenditure by £7.875m with an offsetting reduction in project expenditure on other enhancement infrastructure assets. The revisions have been applied in full to expenditure incurred in 2017/18 but have not been retrospectively applied.

The approach to allocating costs between the water services is outlined on page 76 with a detailed methodology available on our website.

**TABLE 4D – Wholesale totex analysis – water continued**  
2017/18 analysis

	Water resources				Network+	
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
<b>Unit cost information (operating expenditure)</b>						
Licensed volume available (MI)	475,744.668					
Volume abstracted (MI)		230,486.229				
Volume transported (MI)			230,486.229			
Average volume stored (MI)				1,011.000		
Distribution input volume – water treatment MI					214,414.372	
Distribution input volume – treated water MI						214,414.372
<b>Unit cost (£/MI)</b>	<b>10.003</b>	<b>28.310</b>	<b>13.567</b>	<b>0.989</b>	<b>145.335</b>	<b>222.494</b>
Population (000s)	2,195,110	2,195,110	2,195,110	2,195,110	2,195,110	2,195,110
<b>Unit cost (£/pop)</b>	<b>2.168</b>	<b>2.973</b>	<b>1.425</b>	<b>0.000</b>	<b>14.196</b>	<b>21.733</b>

Following the availability of improved information we have reviewed the drivers used to calculate unit costs in 4D in line with the tables below (there is no change to the allocation of costs):

<b>Licensed volume available</b>	<b>2015/16</b>	<b>2016/17</b>
Total operating expenditure	3.912	4.627
Volume (MI)	386,748.312	475,744.668
Unit cost (£/MI)	10.115	9.726
<b>Volume abstracted (MI)</b>	<b>2015/16</b>	<b>2016/17</b>
Total operating expenditure	5.288	6.707
Volume (tonnes)	165,026.959	227,392.580
Unit cost	32.043	<b>29.495</b>
<b>Volume transported (MI)</b>	<b>2015/16</b>	<b>2016/17</b>
Total operating expenditure	2.731	3.404
Volume (MI)	165,026.959	277,392.580
Unit cost (£/MI)	16.549	<b>14.970</b>
<b>Average volume stored (MI)</b>	<b>2015/16</b>	<b>2016/17</b>
Total operating expenditure	0.002	0.001
Volume (MI)	1,011.000	1,011.000
Unit cost (£/MI)	1.538	<b>0.897</b>
<b>Distribution input from water treatment (MI)</b>	<b>2015/16</b>	<b>2016/17</b>
Total operating expenditure	24.924	30.081
Volume (MI)	154,751.256	207,820.221
Unit cost (£/MI)	161.058	<b>144.745</b>
<b>Distribution input treated water (MI)</b>	<b>2015/16</b>	<b>2016/17</b>
Total operating expenditure	35.786	44.229
Volume (MI)	154,751.256	207,820.221
Unit cost (£/MI)	231.249	<b>212.823</b>

## ADDITIONAL REGULATORY INFORMATION

### TABLE 4E – Wholesale totex analysis – wastewater

	Network+ Sewage collection		Network+ Sewage treatment			Sludge			Total £m
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	
<b>Operating expenditure</b>									
Power	4.251	1.119	0.224	9.491	1.322	–	1.223	0.001	<b>17.631</b>
Income treated as negative expenditure	–	–	–	(0.001)	–	–	(0.268)	–	<b>(0.269)</b>
Discharge consents	0.596	0.157	–	2.473	–	–	–	–	<b>3.226</b>
Bulk discharge	–	–	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>									
– Renewals expensed in year (Infrastructure)	7.516	1.978	0.396	–	–	–	–	–	<b>9.890</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	9.167	2.412	0.483	24.531	0.227	3.068	6.211	3.007	<b>49.106</b>
Local authority rates and Cumulo rates	0.114	0.030	–	5.481	–	–	0.760	–	<b>6.385</b>
<b>Total operating expenditure excluding third party services</b>	<b>21.644</b>	<b>5.696</b>	<b>1.103</b>	<b>41.975</b>	<b>1.549</b>	<b>3.068</b>	<b>7.926</b>	<b>3.008</b>	<b>85.969</b>
Third party services	1.446	0.381	–	–	–	–	–	–	<b>1.827</b>
<b>Total operating expenditure</b>	<b>23.090</b>	<b>6.077</b>	<b>1.103</b>	<b>41.975</b>	<b>1.549</b>	<b>3.068</b>	<b>7.926</b>	<b>3.008</b>	<b>87.796</b>
<b>Capital expenditure</b>									
Maintaining the long-term capability of the assets – infra	15.224	4.007	0.691	–	–	–	–	–	<b>19.922</b>
Maintaining the long-term capability of the assets – non-infra	3.516	0.925	0.160	24.491	0.904	–	2.399	–	<b>32.395</b>
Other capital expenditure – infra	20.636	5.431	0.936	–	–	–	–	–	<b>27.003</b>
Other capital expenditure – non-infra	2.068	0.544	0.094	4.157	0.153	–	0.497	–	<b>7.513</b>
Infrastructure network reinforcement	1.555	0.409	0.071	–	–	–	–	–	<b>2.035</b>
Total gross capital expenditure (excluding third party services)	42.999	11.316	1.952	28.648	1.057	–	2.896	–	<b>88.868</b>
Third party services	–	–	–	–	–	–	–	–	<b>–</b>
Total gross capital expenditure	42.999	11.316	1.952	28.648	1.057	–	2.896	–	<b>88.868</b>
Grants and contributions	5.900	1.553	0.301	0.175	0.005	–	–	–	<b>7.934</b>
<b>Totex</b>	<b>60.189</b>	<b>15.840</b>	<b>2.754</b>	<b>70.448</b>	<b>2.601</b>	<b>3.068</b>	<b>10.822</b>	<b>3.008</b>	<b>168.730</b>
<b>Cash expenditure</b>									
Pension deficit recovery payments	–	–	–	–	–	–	–	–	<b>–</b>
Other cash items	–	–	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	<b>60.189</b>	<b>15.840</b>	<b>2.754</b>	<b>70.448</b>	<b>2.601</b>	<b>3.068</b>	<b>10.822</b>	<b>3.008</b>	<b>168.730</b>



**TABLE 4E – Wholesale totex analysis – wastewater continued**

	Sewage collection			Sewage treatment			Sludge	
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m
<b>Unit cost information (operating expenditure)</b>								
Volume collected – foul (MI)	85,114.350							
Volume collected – surface water drainage (MI)		72,294.933						
Volume collected – highway drainage (MI)			63,853.716					
BOD <sup>(1)</sup> – sewage treatment and disposal (tonnes)				38,799.300				
BOD <sup>(1)</sup> – imported sludge liquor treatment (tonnes)					725.783			
Volume transported – sludge transport (m <sup>3</sup> )						359,619.900		
Dried solid mass treated – sludge treatment (ttds)							40,538.000	
Dried solid mass disposed – sludge disposal (ttds)								37,023.000
<b>Unit cost (£/unit)</b>	<b>271.282</b>	<b>84.058</b>	<b>17.274</b>	<b>1,081.849</b>	<b>2,134.247</b>	<b>8.531</b>	<b>195.520</b>	<b>81.247</b>
Population (000s)	1,706.380	1,706.380	1,706.380	1,706.380	1,706.380	1,706.380	1,706.380	1,706.380
<b>Unit cost (£/pop)</b>	<b>13.532</b>	<b>3.561</b>	<b>0.646</b>	<b>24.599</b>	<b>0.908</b>	<b>1.798</b>	<b>4.645</b>	<b>1.763</b>

(1) Biochemical Oxygen Demand.

The increase in sewage collection capital expenditure between 2016/17 and 2017/18 is attributable to major investment in a number of Plymouth Bathing Waters projects where expenditure was largely incurred in 2017/18. Expenditure on sewage treatment and sludge projects has fallen between 2016/17 and 2017/18. The reduction is attributable to the high level of capital maintenance expenditure, which includes process upgrades, in 2016/17. The planned element of this work was partly advanced to achieve early benefits from the relevant investment.

The approach to allocating costs between the wastewater services is outlined on page 75 with a detailed methodology available on our website. Following the availability of improved information we have reviewed the drivers used to calculate unit costs in 4E in line with the tables below (there is no change to the allocation of costs):

<b>BOD – imported sludge liquor treatment</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Total operating expenditure	1,455	1,288	1,549
Volume (tonnes)	719,270	638,436	725,783
Unit cost	2,022,884	2,017,430	2,134,247

<b>Volume transported – sludge transport (m<sup>3</sup>)</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Total operating expenditure	3,193	3,047	3,068
Volume (tonnes)	380,327,120	360,440,710	359,619,900
Unit cost	8,395	8,407	8,531

## ADDITIONAL REGULATORY INFORMATION

### TABLE 4F – Operating cost analysis – household retail

	Household unmeasured				Household measured				
	Water only £m	Wastewater only £m	Water and wastewater £m	Total £m	Water only £m	Wastewater only £m	Water and wastewater £m	Total £m	Total £m
<b>Operating expenditure</b>									
Customer services	0.915	0.024	1.141	<b>2.080</b>	1.797	0.027	6.027	<b>7.851</b>	<b>9.931</b>
Debt management	0.209	0.005	0.261	<b>0.475</b>	0.410	0.006	1.377	<b>1.793</b>	<b>2.268</b>
Doubtful debts	1.044	0.027	1.302	<b>2.373</b>	2.049	0.031	6.873	<b>8.953</b>	<b>11.326</b>
Meter reading					0.309	0.005	1.037	<b>1.351</b>	<b>1.351</b>
Other operating expenditure	0.385	0.010	0.480	<b>0.875</b>	0.755	0.011	2.534	<b>3.300</b>	<b>4.175</b>
Total operating expenditure excluding third party services	2.553	0.066	3.184	<b>5.803</b>	5.320	0.080	17.848	<b>23.248</b>	<b>29.051</b>
Third party services operating expenditure	–	–	–	–	–	–	–	–	–
<b>Total operating expenditure</b>	<b>2.553</b>	<b>0.066</b>	<b>3.184</b>	<b>5.803</b>	<b>5.320</b>	<b>0.080</b>	<b>17.848</b>	<b>23.248</b>	<b>29.051</b>
Depreciation – tangible fixed assets									
– on assets existing at 31 March 2015	0.071	0.002	0.088	<b>0.161</b>	0.139	0.002	0.465	<b>0.606</b>	<b>0.767</b>
– on assets acquired since 1 April 2015	0.082	0.002	0.102	<b>0.186</b>	0.160	0.002	0.537	<b>0.699</b>	<b>0.885</b>
Amortisation – intangible fixed assets									
– on assets existing at 31 March 2015	0.031	0.001	0.039	<b>0.071</b>	0.061	0.001	0.203	<b>0.265</b>	<b>0.336</b>
– on assets acquired since 1 April 2015	0.001	–	0.001	<b>0.002</b>	0.002	–	0.007	<b>0.009</b>	<b>0.011</b>
<b>Total operating costs</b>	<b>2.738</b>	<b>0.071</b>	<b>3.414</b>	<b>6.223</b>	<b>5.682</b>	<b>0.085</b>	<b>19.060</b>	<b>24.827</b>	<b>31.050</b>
<b>Capital expenditure</b>	<b>0.118</b>	<b>0.003</b>	<b>0.147</b>	<b>0.268</b>	<b>0.232</b>	<b>0.003</b>	<b>0.778</b>	<b>1.013</b>	<b>1.281</b>

Operating costs per customer type were allocated based on the number of customers within each type.

	Total £m
<b>Demand-side efficiency and customer-side leaks analysis – Household</b>	
Demand-side water efficiency – gross expenditure	<b>0.137</b>
Demand-side water efficiency – expenditure funded by wholesale	–
<b>Demand-side water efficiency – net retail expenditure</b>	<b>0.137</b>
Customer-side leak repairs – gross expenditure	<b>0.002</b>
Customer-side leak repairs – expenditure funded by wholesale	–
<b>Customer-side leak repairs – net retail expenditure</b>	<b>0.002</b>

**TABLE 4G – Wholesale current cost financial performance**

	Water £m	Wastewater £m	Total £m
Revenue	246.136	280.488	<b>526.624</b>
Operating expenditure	(93.280)	(87.796)	<b>(181.076)</b>
Capital maintenance charges	(68.235)	(107.133)	<b>(175.368)</b>
Other operating income	0.998	1.415	<b>2.413</b>
<b>Current cost operating profit</b>	<b>85.619</b>	<b>86.974</b>	<b>172.593</b>
Other income	-	-	-
Interest income	0.552	0.654	<b>1.206</b>
Interest expense	(32.835)	(38.872)	<b>(71.707)</b>
Other interest expense	(0.424)	(0.387)	<b>(0.811)</b>
<b>Current cost profit before tax and fair value movements</b>	<b>52.912</b>	<b>48.369</b>	<b>101.281</b>
Fair value gains/(losses) on financial instruments	-	-	-
<b>Current cost profit before tax</b>	<b>52.912</b>	<b>48.369</b>	<b>101.281</b>

The Company does not have any financial instruments accounted for at fair value through the income statement.

## ADDITIONAL REGULATORY INFORMATION

### TABLE 4H – Financial metrics

	Metric £m
<b>Financial indicators</b>	
Net debt	2,071.246
Regulated equity	1,359.968
Regulated gearing (%)	60.36%
Post tax return on regulated equity (%)	11.35%
RoRE (return on regulated equity) (%)	11.54%
Dividend yield (%)	8.85%
Retail profit margin – household (%)	2.08%
Retail profit margin – non-household (%)	N/A
Credit rating	N/A
Return on RCV (%)	6.51%
Dividend cover (dec)	1.19
Funds from operations (FFO)	258.787
Interest cover (cash) (dec)	6.05
Adjusted interest cover (cash) (dec)	3.11
FFO/debt (dec)	0.12
Effective tax rate (%)	17.19%
Free cash flow (RCF)	138.487
RCF/capex (dec)	0.71
<b>Revenue and earnings</b>	
Revenue (actual)	561.335
EBITDA (actual)	351.208

South West Water does not have a credit rating as this is not a licence requirement.

	%
<b>Borrowings</b>	
Proportion of borrowings which are fixed rate	53.69%
Proportion of borrowings which are floating rate	24.27%
Proportion of borrowings which are index linked	22.04%
Proportion of borrowings due within 1 year or less	2.10%
Proportion of borrowings due in more than 1 year but no more than 2 years	3.74%
Proportion of borrowings due in more than 2 years but no more than 5 years	10.31%
Proportion of borrowings due in more than 5 years but no more than 20 years	38.25%
Proportion of borrowings due in more than 20 years	45.60%

**TABLE 4I – Financial derivatives**

Derivative type	Nominal value by maturity (net)			Nominal value (net) £m	Total value		Interest rate (weighted average)	
	1 to 2 years £m	2 to 5 years £m	Over 5 years £m		Mark to market £m	Total accretion £m	Payable %	Receivable %
<b>Interest rate swap (sterling)</b>								
Floating to fixed rate	(11,677)	(2,601)	(1,138)	<b>(15,416)</b>	(15,416)	–	1.96	0.63
<b>Total</b>	(11,677)	(2,601)	(1,138)	<b>(15,416)</b>	(15,416)	–		
<b>Total financial derivatives</b>	<b>(11,677)</b>	<b>(2,601)</b>	<b>(1,138)</b>	<b>(15,416)</b>	<b>(15,416)</b>	<b>–</b>		

South West Water has interest rate swaps which are used to swap fixed and floating rate debt. No swaps are made on index-linked debt or using index-linked swaps.

South West Water also has limited forward currency contracts used to fix the cost of certain purchases in respect of capital projects.

The table above has been compiled on the basis of swap value and maturity, rather than the underlying debt instrument.

The total swap value of £15.416m above excludes accrued interest charges of £1.167m and currency items totalling £0.105m resulting in a total financial instrument liability of £16.688m.

## ADDITIONAL REGULATORY INFORMATION

**Table 4J – Atypical expenditure by business unit – wholesale water**

South West Water has not identified any expenditure which would be defined as 'atypical expenditure.' Therefore the table below is equal to table 4D

	Water resources				Network+		Total £m
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	
<b>Operating expenditure (excl. atypicals)</b>							
Power	–	2.232	1.083	–	10.518	2.380	<b>16.213</b>
Income treated as negative expenditure	–	(0.431)	(0.021)	–	(0.087)	(0.011)	<b>(0.550)</b>
Abstraction charges/discharge consents	4.718	–	0.229	–	0.154	0.013	<b>5.114</b>
Bulk supply	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>							
– Renewals expensed in year (Infrastructure)	–	–	–	–	–	5.385	<b>5.385</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	0.041	3.019	1.336	0.001	18.374	21.692	<b>44.463</b>
Local authority and Cumulo rates	–	1.705	0.500	–	2.203	16.961	<b>21.369</b>
Total operating expenditure excluding third party services	4.759	6.525	3.127	0.001	31.162	46.420	<b>91.994</b>
Third party services	–	–	–	–	–	1.286	<b>1.286</b>
Total operating expenditure	4.759	6.525	3.127	0.001	31.162	47.706	<b>93.280</b>
<b>Capital expenditure (excl. atypicals)</b>							
Maintaining the long-term capability of the assets – infra	–	0.287	0.235	–	–	11.781	<b>12.303</b>
Maintaining the long-term capability of the assets – non-infra	–	0.702	0.075	–	28.686	11.736	<b>41.199</b>
Other capital expenditure – infra	–	–	–	–	–	7.281	<b>7.281</b>
Other capital expenditure – non-infra	–	2.640	–	–	17.975	3.532	<b>24.147</b>
Infrastructure network reinforcement	–	–	–	–	–	1.035	<b>1.035</b>
<b>Total gross capital expenditure (excluding third party)</b>	–	3.629	0.310	–	46.661	35.365	<b>85.965</b>
Third party services	–	–	–	–	–	5.076	<b>5.076</b>
<b>Total gross capital expenditure</b>	–	3.629	0.310	–	46.661	40.441	<b>91.041</b>
Grants and contributions	–	–	–	–	–	9.219	<b>9.219</b>
<b>Totex</b>	4.759	10.154	3.437	0.001	77.823	78.928	<b>175.102</b>
<b>Cash expenditure (excl. atypicals)</b>							
Pension deficit recovery payments	–	–	–	–	–	–	<b>–</b>
Other cash items	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	4.759	10.154	3.437	0.001	77.823	78.928	<b>175.102</b>
<b>Total expenditure</b>	4.759	10.154	3.437	0.001	77.823	78.928	<b>175.102</b>

## TABLE 4K – Atypical expenditure by business unit – wholesale wastewater

South West Water has not identified any expenditure which would be defined as 'atypical expenditure.' Therefore the table below is equal to table 4E.

	Network+ Sewage collection			Network+ Sewage treatment		Sludge			Total £m
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	
<b>Operating expenditure (excl. atypicals)</b>									
Power	4.251	1.119	0.224	9.491	1.322	-	1.223	0.001	<b>17.631</b>
Income treated as negative expenditure	-	-	-	(0.001)	-	-	(0.268)	-	<b>(0.269)</b>
Discharge consents	0.596	0.157	-	2.473	-	-	-	-	<b>3.226</b>
Bulk discharge	-	-	-	-	-	-	-	-	<b>-</b>
<b>Other operating expenditure</b>									
- Renewals expensed in year (Infrastructure)	7.516	1.978	0.396	-	-	-	-	-	<b>9.890</b>
- Renewals expensed in year (Non-Infrastructure)	-	-	-	-	-	-	-	-	<b>-</b>
- Other operating expenditure excluding renewals	9.167	2.412	0.483	24.531	0.227	3.068	6.211	3.007	<b>49.106</b>
Local authority and Cumulo rates	0.114	0.030	-	5.481	-	-	0.760	-	<b>6.385</b>
<b>Total operating expenditure excluding third party services</b>	<b>21.644</b>	<b>5.696</b>	<b>1.103</b>	<b>41.975</b>	<b>1.549</b>	<b>3.068</b>	<b>7.926</b>	<b>3.008</b>	<b>85.969</b>
Third party services	1.446	0.381	-	-	-	-	-	-	<b>1.827</b>
<b>Total operating expenditure</b>	<b>23.090</b>	<b>6.077</b>	<b>1.103</b>	<b>41.975</b>	<b>1.549</b>	<b>3.068</b>	<b>7.926</b>	<b>3.008</b>	<b>87.796</b>
<b>Capital expenditure (excl. atypicals)</b>									
Maintaining the long-term capability of the assets – infra	15.224	4.007	0.691	-	-	-	-	-	<b>19.922</b>
Maintaining the long-term capability of the assets – non-infra	3.516	0.925	0.160	24.491	0.904	-	2.399	-	<b>32.395</b>
Other capital expenditure – infra	20.636	5.431	0.936	-	-	-	-	-	<b>27.003</b>
Other capital expenditure – non-infra	2.068	0.544	0.094	4.157	0.153	-	0.497	-	<b>7.513</b>
Infrastructure network reinforcement	1.555	0.409	0.071	-	-	-	-	-	<b>2.035</b>
<b>Total gross capital expenditure (excluding third party)</b>	<b>42.999</b>	<b>11.316</b>	<b>1.952</b>	<b>28.648</b>	<b>1.057</b>	<b>-</b>	<b>2.896</b>	<b>-</b>	<b>88.868</b>
Third party services	-	-	-	-	-	-	-	-	<b>-</b>
<b>Total gross capital expenditure</b>	<b>42.999</b>	<b>11.316</b>	<b>1.952</b>	<b>28.648</b>	<b>1.057</b>	<b>-</b>	<b>2.896</b>	<b>-</b>	<b>88.868</b>
Grants and contributions	5.900	1.553	0.301	0.175	0.005	-	-	-	<b>7.934</b>
<b>Totex</b>	<b>60.189</b>	<b>15.840</b>	<b>2.754</b>	<b>70.448</b>	<b>2.601</b>	<b>3.068</b>	<b>10.822</b>	<b>3.008</b>	<b>168.730</b>
<b>Cash expenditure (excl. atypicals)</b>									
Pension deficit recovery payments	-	-	-	-	-	-	-	-	<b>-</b>
Other cash items	-	-	-	-	-	-	-	-	<b>-</b>
<b>Totex including cash items</b>	<b>60.189</b>	<b>15.840</b>	<b>2.754</b>	<b>70.448</b>	<b>2.601</b>	<b>3.068</b>	<b>10.822</b>	<b>3.008</b>	<b>168.730</b>
<b>Total expenditure</b>	<b>60.189</b>	<b>15.840</b>	<b>2.754</b>	<b>70.448</b>	<b>2.601</b>	<b>3.068</b>	<b>10.822</b>	<b>3.008</b>	<b>168.730</b>



## ADDITIONAL REGULATORY INFORMATION

**TABLE 4L – Enhancement capital expenditure by purpose – wholesale water**

	Expenditure in report year						Total £m
	Water resources			Network+			
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	
<b>Enhancement capital expenditure by purpose</b>							
Making ecological improvements at abstractions (habitats directive, SSSI, BAPs)	–	0.335	–	–	–	–	<b>0.335</b>
Supply side enhancements to the supply/demand balance (dry year annual average conditions)	–	–	–	–	–	0.059	<b>0.059</b>
New developments	–	–	–	–	–	4.705	<b>4.705</b>
New connection element of new development (CPs, meters)	–	–	–	–	–	5.236	<b>5.236</b>
Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	–	–	–	–	8.928	–	<b>8.928</b>
Resilience	–	–	–	–	0.020	0.764	<b>0.784</b>
SEMD	–	–	–	–	0.058	–	<b>0.058</b>
Metering (excluding cost of providing metering to new service connections)	–	–	–	–	–	3.448	<b>3.448</b>
Management and general investment	–	0.083	–	–	0.557	0.469	<b>1.109</b>
New WTW North Plymouth, Mayflower WTW	–	–	–	–	8.412	2.243	<b>10.655</b>
Catchment management	–	2.222	–	–	–	–	<b>2.222</b>
<b>Total enhancement capital expenditure</b>	–	2.640	–	–	17.975	16.924	<b>37.539</b>



**TABLE 4L – Enhancement capital expenditure by purpose – wholesale water** continued

	Cumulative expenditure on schemes completed in the report year						Total £m
	Water resources		Network+				
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	
<b>Enhancement capital expenditure by purpose</b>							
Making ecological improvements at abstractions (habitats directive, SSSI, BAPs)	–	0.335	–	–	–	–	<b>0.335</b>
Supply side enhancements to the supply/demand balance (dry year annual average conditions)	–	–	–	–	–	0.059	<b>0.059</b>
New developments	–	–	–	–	–	4.705	<b>4.705</b>
New connection element of new development (CPs, meters)	–	–	–	–	–	5.236	<b>5.236</b>
Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	–	–	–	–	12.010	–	<b>12.010</b>
Resilience	–	–	–	–	–	0.816	<b>0.816</b>
SEMD	–	–	–	–	0.058	–	<b>0.058</b>
Metering (excluding cost of providing metering to new service connections)	–	–	–	–	–	3.448	<b>3.448</b>
Management and general investment	–	–	–	–	–	–	–
New WTW North Plymouth, Mayflower WTW	–	–	–	–	–	–	–
Catchment management	–	2.222	–	–	–	–	<b>2.222</b>
<b>Total enhancement capital expenditure</b>	–	2.557	–	–	12.068	14.264	<b>28.889</b>

The above table contains all projects in excess of £0.5m. Where a project consists of a large number of very small projects or continuous programmes of expenditure, each annual programme of expenditure is reported even if the expenditure for the year is below £0.5m

ADDITIONAL REGULATORY INFORMATION

**TABLE 4M – Enhancement capital expenditure by purpose – wholesale wastewater**

	Expenditure in report year								Total £m
	Network+ Sewage Collection			Network+ Sewage Treatment		Sludge			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	
<b>Enhancement capital expenditure by purpose</b>									
First time sewerage	0.025	0.007	0.001	–	–	–	–	–	<b>0.033</b>
Sludge enhancement (quality)	–	–	–	–	–	–	0.481	–	<b>0.481</b>
NEP – Event Duration Monitoring at intermittent discharges	0.688	0.181	0.031	–	–	–	–	–	<b>0.900</b>
NEP – Nutrients (P removal at filter bed STWs)	–	–	–	0.776	0.029	–	–	–	<b>0.805</b>
New development and growth	4.639	1.221	0.211	–	–	–	–	–	<b>6.071</b>
Growth at sewage treatment works (excluding sludge treatment)	–	–	–	2.935	0.108	–	–	–	<b>3.043</b>
Reduce flooding risk for properties	0.841	0.221	0.038	–	–	–	–	–	<b>1.100</b>
Transferred private sewers and pumping stations	0.970	0.255	0.044	–	–	–	–	–	<b>1.269</b>
Bathing Waters additional requirements	16.187	4.260	0.735	–	–	–	–	–	<b>21.182</b>
Cranbrook and Sherford developments (new towns)	(0.456)	(0.120)	(0.021)	(0.004)	–	–	–	–	<b>(0.601)</b>
Downstream thinking	0.472	0.124	0.021	0.267	0.010	–	–	–	<b>0.894</b>
Management and general	0.892	0.235	0.042	0.183	0.006	–	0.016	–	<b>1.374</b>
<b>Total enhancement capital expenditure</b>	<b>24.258</b>	<b>6.384</b>	<b>1.102</b>	<b>4.157</b>	<b>0.153</b>	<b>–</b>	<b>0.497</b>	<b>–</b>	<b>36.551</b>

The credits reported in respect of the Cranbrook and Sherford developments, which are also shown as a credit in table 2J under wholesale wastewater other, relate to favourable settlement of contractual issues arising on a major sewerage contract.

**TABLE 4M – Enhancement capital expenditure by purpose – wholesale wastewater continued**

	Cumulative expenditure on schemes completed in the report year								Total £m
	Network+ Sewage Collection			Network+ Sewage Treatment		Sludge			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	
<b>Enhancement capital expenditure by purpose</b>									
First time sewerage	0.025	0.007	0.001	-	-	-	-	-	<b>0.033</b>
Sludge enhancement (quality)	-	-	-	-	-	-	-	-	-
NEP – Event Duration Monitoring at intermittent discharges	0.688	0.181	0.031	-	-	-	-	-	<b>0.900</b>
NEP – Nutrients (P removal at filter bed STWs)	-	-	-	0.954	0.035	-	-	-	<b>0.989</b>
New development and growth Growth at sewage treatment works (excluding sludge treatment)	4.639	1.221	0.211	-	-	-	-	-	<b>6.071</b>
Reduce flooding risk for properties	-	-	-	8.702	0.320	-	-	-	<b>9.022</b>
Transferred private sewers and pumping stations	0.841	0.221	0.038	-	-	-	-	-	<b>1.100</b>
Bathing Waters additional requirements	0.970	0.255	0.044	-	-	-	-	-	<b>1.269</b>
Cranbrook and Sherford developments (new towns)	3.785	0.996	0.172	-	-	-	-	-	<b>4.953</b>
Downstream thinking	-	-	-	-	-	-	-	-	-
Management and general	1.172	0.309	0.053	-	-	-	-	-	<b>1.534</b>
	-	-	-	-	-	-	-	-	-
<b>Total enhancement capital expenditure</b>	<b>12.120</b>	<b>3.190</b>	<b>0.550</b>	<b>9.656</b>	<b>0.355</b>	-	-	-	<b>25.871</b>

**TABLE 4N – Operating expenditure – sewage treatment**

	Network+ £k	Sludge £k	Total £k
Direct costs of STWs in size band 1	2287.010	-	<b>2,287.010</b>
Direct costs of STWs in size band 2	1,993.298	-	<b>1,993.298</b>
Direct costs of STWs in size band 3	4,772.363	-	<b>4,772.363</b>
Direct costs of STWs in size band 4	7,175.790	-	<b>7,175.790</b>
Direct costs of STWs in size band 5	4,609.574	-	<b>4,609.574</b>
General & support costs of STWs in size bands 1 to 5	3,315.633	-	<b>3,315.633</b>
Direct costs of STWs in size band 6	11,491.000	-	<b>11,491.000</b>
General & support costs of STWs in size band 6	1,827.000	-	<b>1,827.000</b>
Service charges for STWs in size band 6	287.000	-	<b>287.000</b>
Estimated terminal pumping costs size band 6 works	825.000	-	<b>825.000</b>
Estimated sludge costs size band 6 works	-	-	-
<b>Total operating expenditure (excluding third party services)</b>	<b>37,471.668</b>	-	<b>37,471.668</b>



## ADDITIONAL REGULATORY INFORMATION

**TABLE 40 – Wholesale wastewater service – large sewage treatment works**

	Units	Barnstaple (Ashford)	Newton Abbot (Buckland)	Torbay (Brokenbury Quarry)	Camborne Redruth
<b>Sewage treatment works – Explanatory variables</b>					
Classification of treatment works	text	TA2	SAS	TA2	SAS
Population equivalent of total load received	OOO	4,908	76.18	150.44	57.52
Suspended solids consent	mg/l	45	60	60	250
BOD <sub>5</sub> consent	mg/l	25	25	25	25
Ammonia consent	mg/l	20	n/a	n/a	n/a
Phosphorus consent	mg/l	n/a	n/a	n/a	n/a
UV consent	mW/s/cm <sup>2</sup>	27	n/a	24	n/a
Load received by STW	kgBOD <sub>5</sub> /d	2,945	4,571	9,026	3,451
Flow passed to Full Treatment	m <sup>3</sup> /d	17,082	24,205	46,494	17,783
<b>Sewage treatment works – Operating expenditure</b>					
Direct expenditure	£000m	714	478	1,988	479
General and support expenditure	£000m	114	76	316	76
Functional expenditure	£000m	828	554	2,304	555
Service charges	£000m	24	9	22	13
Estimated terminal pumping expenditure	£000m	–	–	423	75

Bideford (Cornborough)	Exeter (Countess Wear)	Plymouth (Camels Head)	Exmouth (Maer Lane)	Plymouth (Central)	Falmouth	Hayle	Plymouth (Ernesettle)	Plympton (Marsh Mills)	Truro (Newham)	Newquay
TA2	TA2	TA2	TA2	TA2	TA2	SB	TB2	TA2	TA2	TA2
43.04	158.43	52.06	47.67	112.59	40.02	62.67	60.32	62.50	27.96	36.39
60	25	30	60	60	15	150	60	20	30	60
25	15	20	25	25	20	25	25	10	20	25
n/a	10	n/a	n/a	n/a	n/a	n/a	35	5	20	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
16	30	30	43	54	42	n/a	33	n/a	33	24
2,582	9,506	3,124	2,860	6,755	2,401	3,760	3,619	3,750	1,678	2,183
14,252	45,090	16,684	13,470	39,396	11,241	26,154	22,322	21,189	11,404	10,410
252	1,215	543	495	2,191	522	716	385	550	498	465
40	193	86	79	349	83	114	61	87	79	74
292	1,408	629	574	2,540	605	830	446	637	577	539
7	27	17	13	41	15	23	25	15	24	12
-	-	57	-	270	-	-	-	-	-	-

## ADDITIONAL REGULATORY INFORMATION

**TABLE 4P – Non-financial data for WR, WT and WD – wholesale water**

	Units	Input
<b>Water resources</b>		
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.183
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.004
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.724
Proportion of distribution input derived from boreholes, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.089
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	–
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	–
Number of impounding reservoirs	nr	14
Number of pumped storage reservoirs	nr	–
Number of river abstractions	nr	16
Number of boreholes, excluding managed aquifer recharge (MAR) water supply schemes	nr	32
Number of artificial recharge (AR) water supply schemes	nr	–
Number of aquifer storage and recovery (ASR) water supply schemes	nr	–
Total number of sources	nr	62
Total number of water reservoirs	nr	23
Total capacity of water reservoirs	MI	116,399
Total number of intake and source pumping stations	nr	40
Total number of raw water transfer stations	nr	21
Total capacity of intake and source pumping stations	kW	8,620
Total capacity of raw water transfer pumping stations	kW	14,444
Total length of raw water mains and conveyors	km	73.00
Average pumping head – resources	m.hd	4.75
Average pumping head – raw water transport	m.hd	28.61
<b>Water treatment</b>		
Total water treated at all SW simple disinfection works	MI/d	–
Total water treated at all SW1 works	MI/d	–
Total water treated at all SW2 works	MI/d	–
Total water treated at all SW3 works	MI/d	238.22
Total water treated at all SW4 works	MI/d	–
Total water treated at all SW5 works	MI/d	307.27
Total water treated at all SW6 works	MI/d	–
Total water treated at all GW simple disinfection works	MI/d	17.01
Total water treated at all GW1 works	MI/d	–
Total water treated at all GW2 works	MI/d	1.88
Total water treated at all GW3 works	MI/d	–
Total water treated at all GW4 works	MI/d	22.70
Total water treated at all GW5 works	MI/d	9.92
Total water treated at all GW6 works	MI/d	–
Total water treated at more than one type of works	MI/d	–
Total number of SW simple disinfection works	nr	–
Total number of SW1 works	nr	–
Total number of SW2 works	nr	–
Total number of SW3 works	nr	14
Total number of SW4 works	nr	–
Total number of SW5 works	nr	10
Total number of SW6 works	nr	–
Total number of GW simple disinfection works	nr	3
Total number of GW1 works	nr	–
Total number of GW2 works	nr	1
Total number of GW3 works	nr	–
Total number of GW4 works	nr	5
Total number of GW5 works	nr	1
Total number of GW6 works	nr	–
Number of treatment works requiring remedial action because of raw water deterioration	nr	11
Zonal population receiving water treated with orthophosphate	nr	1,254.854
Average pumping head – treatment	m.hd	9.47
<b>Water distribution</b>		

	Units	Input
Total length of potable mains as at 31 March	km	18,232.87
Total length of mains relined	km	-
Total length of mains renewed	km	20.0
Total length of new mains	km	56.0
Potable water mains <320mm	km	17,172.0
Potable water mains 320mm – 450mm	km	607.0
Potable water mains 450mm – 610mm	km	341.0
Potable water mains >610mm	km	112.0
Total length of non-potable and partially treated main for supplying customers	km	-
Total length of non-potable and partially treated main for treatment	km	239.0
Capacity of booster pumping stations	kW	30,709
Capacity of service reservoirs	MI	1,102
Capacity of water towers	MI	9
Distribution input	MI/d	571.00
Water delivered (non-potable)	MI/d	-
Water delivered (potable)	MI/d	448.42
Water delivered (billed measured households)	MI/d	200.84
Water delivered (billed measured non-households)	MI/d	142.48
Total leakage	MI/d	115.09
Distribution losses	MI/d	93.41
Water taken unbilled	MI/d	24.76
Number of lead communication pipes	nr	81,048
Number of galvanised iron communication pipes	nr	122,196
Number of other communication pipes	nr	772,759
Number of booster pumping stations	nr	268
Total number of service reservoirs	nr	315
Number of water towers	nr	12
Total length of mains laid or structurally refurbished pre-1880	km	38.0
Total length of mains laid or structurally refurbished between 1881 and 1900	km	209.0
Total length of mains laid or structurally refurbished between 1901 and 1920	km	432.0
Total length of mains laid or structurally refurbished between 1921 and 1940	km	1,599.0
Total length of mains laid or structurally refurbished between 1941 and 1960	km	4,041.0
Total length of mains laid or structurally refurbished between 1961 and 1980	km	5,377.0
Total length of mains laid or structurally refurbished between 1981 and 2000	km	4,257.0
Total length of mains laid or structurally refurbished post 2001	km	2,267.0
Average pumping head – distribution	m.hd	84.72

#### Band Disclosure (nr)

WTWs in size band 1	nr	1
WTWs in size band 2	nr	4
WTWs in size band 3	nr	2
WTWs in size band 4	nr	12
WTWs in size band 5	nr	6
WTWs in size band 6	nr	4
WTWs in size band 7	nr	5
WTWs in size band 8	nr	-

#### Band Disclosure (%)

Proportion of Total DI band 1	%	0.1%
Proportion of Total DI band 2	%	1.1%
Proportion of Total DI band 3	%	0.7%
Proportion of Total DI band 4	%	15.2%
Proportion of Total DI band 5	%	17.9%
Proportion of Total DI band 6	%	17.4%
Proportion of Total DI band 7	%	47.6%
Proportion of Total DI band 8	%	-

ADDITIONAL REGULATORY INFORMATION

**TABLE 4Q – Non-financial data – Properties, population and other – wholesale water**

	Units	Input
<b>Properties and population</b>		
Residential properties for measured water (external meter)	000s	685.900
Residential properties billed for measured water (not external meter)	000s	64.595
Business properties billed measured water	000s	74.710
Residential properties billed for unmeasured water	000s	197.244
Business properties billed unmeasured water	000s	3.197
Total business connected properties at year end	000s	83.028
Total residential connected properties at year end	000s	961.329
Total connected properties at year end	000s	1,044.357
Number of residential meters renewed	000s	11.998
Number of business meters renewed	000s	0.370
Number of meters installed at request of optants	000s	7.509
Number of selective meters installed	000s	7.080
Total number of new business connections	000s	0.495
Total number of new residential connections	000s	9.222
Total population served	000s	2195.111
Number of business meters (billed properties)	000s	74.710
Number of residential meters (billed properties)	000s	750.495
Company area	km <sup>2</sup>	11,309
<b>Other</b>		
Number of lead communication pipes replaced for water quality	nr	189
Total supply side enhancements to the supply demand balance (dry year critical/peak conditions)	MI/d	–
Total supply side enhancements to the supply demand balance (dry year annual average conditions)	MI/d	–
Total demand side enhancements to the supply demand balance (dry year critical/peak conditions)	MI/d	–
Total demand side enhancements to the supply demand balance (dry year annual average conditions)	MI/d	–
Energy consumption (i.e. including imports, self generation, excluding exports) – wholesale	MWh	148,010
Energy consumption (i.e. including imports, self generation, excluding exports) – network +	MWh	139,856
Energy consumption (i.e. including imports, self generation, excluding exports) – water resources	MWh	8,154
Peak factor	%	116.10
Mean Zonal Compliance	%	99.97
Volume of Leakage above or below the Sustainable Economic Level	MI	(24.344)



**TABLE 4R – Non-financial data – Wastewater network and sludge – wholesale wastewater**

	Units	Input
<b>Wastewater network</b>		
Connectable properties served by s101A schemes completed in the report year	nr	7
Number of s101A schemes completed in the report year	nr	1
Total pumping station capacity	kW	42,039
Number of network pumping stations	nr	1,231
Total number of sewer blockages	nr	8,041
Total number of gravity sewer collapses	nr	226
Total number of sewer rising main bursts/collapses	nr	59
Number of combined sewer overflows	nr	1,219
Number of emergency overflows	nr	231
Number of settled storm overflows	nr	151
Sewer age profile (constructed post 2001)	km	1,073
Volume of trade effluent	MI/yr	2,577.00
Volume of wastewater receiving treatment at sewage treatment works	MI/yr	221,281.25
Length of gravity sewers rehabilitated	km	31
Length of rising mains replaced or structurally refurbished	km	4
Length of foul (only) public sewers	km	1,809
Length of surface water (only) public sewers	km	2,832
Length of combined public sewers	km	5,682
Length of rising mains	km	610
Length of other wastewater network pipework	km	137
Total length of "legacy" public sewers as at 31 March	km	11070
Length of formerly private sewers and lateral drains (s105A sewers)	km	6,370
	Units	Input
<b>Sludge</b>		
Total sewage sludge produced, treated by incumbents	ttds/year	39.3
Total sewage sludge produced, treated by third party sludge service provider	ttds/year	-
Total sewage sludge produced	ttds/year	39.3
Percentage of sludge produced and treated at a site of STW and STC co-location	%	70.00
Total sewage sludge disposed by incumbents	ttds/year	38.5
Total sewage sludge disposed by third party sludge service provider	ttds/year	-
Total sewage sludge disposed	ttds/year	38.5
Total measure of intersiting 'work' done by pipeline	ttds*km/year	1
Total measure of intersiting 'work' done by tanker	ttds*km/year	357
Total measure of intersiting 'work' done by truck	ttds*km/year	-
Total measure of intersiting 'work' done (all forms of transportation)	ttds*km/year	358
Total measure of intersiting 'work' done by tanker (by volume transported)	m <sup>3</sup> *km/yr	15
Total measure of 'work' done in sludge disposal operations by pipeline	ttds*km/year	-
Total measure of 'work' done in sludge disposal operations by tanker	ttds*km/year	-
Total measure of 'work' done in sludge disposal operations by truck	ttds*km/year	1,540
Total measure of 'work' done in sludge disposal operations (all forms of transportation)	ttds*km/year	1,540
Total measure of 'work' done by tanker in sludge disposal operations (by volume transported)	m <sup>3</sup> *km/yr	-
Chemical P sludge as % of sludge produced at STWs	%	14.70

## ADDITIONAL REGULATORY INFORMATION

### TABLE 4S – Non-financial data – Sewage treatment – wholesale wastewater

	Units	Treatment categories							Total
		Primary	Secondary		A1	A2	B1	B2	
			Activated sludge	Biological					
<b>Load received at sewage treatment works in 2017/18</b>									
Load received by STWs in size band 1	kg BOD <sub>5</sub> /day	93	322	970	75	15	443	26	<b>1,944</b>
Load received by STWs in size band 2	kg BOD <sub>5</sub> /day	–	235	785	133	95	354	161	<b>1,763</b>
Load received by STWs in size band 3	kg BOD <sub>5</sub> /day	65	1,305	1,811	1,076	864	1,188	657	<b>6,966</b>
Load received by STWs in size band 4	kg BOD <sub>5</sub> /day	–	3,045	2,377	1,349	5,151	1,081	4,085	<b>17,088</b>
Load received by STWs in size band 5	kg BOD <sub>5</sub> /day	–	3,505	–	804	5,268	786	5,852	<b>16,215</b>
Load received by STWs above size band 5	kg BOD <sub>5</sub> /day	–	8,022	3,760	–	46,811	–	3,619	<b>62,212</b>
<b>Total load received</b>	kg BOD <sub>5</sub> /day	158	16,434	9,703	3,437	58,204	3,852	14,400	<b>106,188<sup>1</sup></b>
Load received from trade effluent customers at treatment works	kg BOD <sub>5</sub> /day								3,955
<b>Number of sewage treatment works at 31 March 2018</b>									
STWs in size band 1	nr	83	43	190	9	1	54	3	<b>383</b>
STWs in size band 2	nr	–	10	33	6	3	16	7	<b>75</b>
STWs in size band 3	nr	1	17	32	15	8	20	9	<b>102</b>
STWs in size band 4	nr	–	10	10	5	15	5	11	<b>56</b>
STWs in size band 5	nr	–	3	–	1	6	1	5	<b>16</b>
STWs above size band 5	nr	–	2	1	–	11	–	1	<b>15</b>
<b>Total number of works</b>	nr	84	85	266	36	44	96	36	<b>647<sup>1</sup></b>

(1) South West Water has four Fine Screening Plants (Preliminary Treatment Works) which are included within the treatment works consent section of table 4S, but are not classified within the primary, secondary or tertiary categories.

	Units	2017/18
<b>Population equivalent</b>		
Current population equivalent served by STWs	000s	1,647,187
Current population equivalent served by discharge relocation schemes	000s	–
Current population equivalent served by filter bed STWs with tightened/new P consents	000s	11,766
Current population equivalent served by activated sludge STWs with tightened/new P consents	000s	–
Current population equivalent served by groundwater protection schemes	000s	–
Current population equivalent served by STWs with a Flow1 driver scheme	000s	–
Current population equivalent served by STWs with tightened/new N consents	000s	–
Current population equivalent served by STWs with tightened/new sanitary parameter consents	000s	31,131
Current population equivalent served by STWs with tightened/new UV consents	000s	–
Population equivalent treatment capacity enhancement	000s	23,340

Treatment works consents

Phosphorus										BOD <sub>5</sub>					Ammonia				
<=0.5mg/l	>0.5 to <=1mg/l	>1mg/l	No permit	Total	<=7mg/l	>7 to <=10mg/l	>10 to <=20mg/l	>20mg/l	No permit	Total	<=1mg/l	>1 to <=3mg/l	>3 to <=10mg/l	>10mg/l	No permit	Total			
-	-	-	1,964	<b>1,964</b>	-	6	168	311	1,480	1,965	-	-	181	138	1,645	<b>1,964</b>			
-	-	-	1,763	<b>1,763</b>	17	74	521	1,011	140	1,763	-	42	731	371	619	<b>1,763</b>			
-	117	-	6,946	<b>7,063</b>	309	538	2,358	3,575	282	7,062	120	459	2,063	1,123	3,298	<b>7,063</b>			
-	941	-	16,146	<b>17,087</b>	-	706	6,294	10,087	-	17,087	-	415	6,404	3,319	6,949	<b>17,087</b>			
-	731	4,328	11,156	<b>16,215</b>	-	1,474	9,523	5,217	-	16,214	-	1,444	8,176	1,377	5,217	<b>16,214</b>			
-	-	-	62,212	<b>62,212</b>	-	3,750	16,708	41,754	-	62,212	-	-	13,256	8,242	40,714	<b>62,212</b>			
-	1,789	4,328	100,187	<b>106,304</b>	326	6,548	35,572	61,955	1,902	106,303	120	2,360	30,811	14,570	58,442	<b>106,303</b>			
-	-	-	386	<b>386</b>	-	1	16	29	340	386	-	-	16	16	354	<b>386</b>			
-	-	-	75	<b>75</b>	1	3	22	43	6	75	-	2	31	16	26	<b>75</b>			
-	1	-	102	<b>103</b>	4	6	39	51	3	103	1	6	35	15	46	<b>103</b>			
-	3	-	53	<b>56</b>	-	2	19	35	-	56	-	3	18	13	22	<b>56</b>			
-	1	4	11	<b>16</b>	-	2	9	5	-	16	-	1	9	1	5	<b>16</b>			
-	-	-	15	<b>15</b>	-	1	4	10	-	15	-	-	2	3	10	<b>15</b>			
-	5	4	642	<b>651</b>	5	15	109	173	349	651	1	12	111	64	463	<b>651</b>			



## ADDITIONAL REGULATORY INFORMATION

### TABLE 4T – Non-financial data – Sludge treatment – wholesale wastewater

	Units	By incumbent	by third party sludge service providers
<b>Sludge treatment process</b>			
% Sludge – untreated	%	–	–
% Sludge treatment process – raw sludge liming	%	72.5%	–
% Sludge treatment process – conventional AD	%	23.4%	–
% Sludge treatment process – advanced AD	%	–	–
% Sludge treatment process – incineration of raw sludge	%	–	–
% Sludge treatment process – incineration of digested sludge	%	–	–
% Sludge treatment process – phyto-conditioning/composting	%	4.1%	–
% Sludge treatment process – other (specify)	%	–	–
<b>% Sludge treatment process – Total</b>	<b>%</b>	<b>100.0%</b>	<b>0.0%</b>
<b>(Un-incinerated) sludge disposal route</b>			
% Sludge disposal route – landfill, raw	%	–	–
% Sludge disposal route – landfill, partly treated	%	–	–
% Sludge disposal route – land restoration/reclamation	%	–	–
% Sludge disposal route – sludge recycled to farmland	%	100.0%	–
% Sludge disposal route – other (specify)	%	–	–
<b>% Sludge disposal route – Total</b>	<b>%</b>	<b>100.0%</b>	<b>0.0%</b>

**TABLE 4U – Non-financial data – Properties, population and other – wholesale wastewater**

	Units	Input
<b>Properties and population</b>		
Households properties connected during the year	000s	7,162
Non-households properties connected during the year	000s	0.252
Households properties billed unmeasured sewage	000s	111,779
Households properties billed measured sewage	000s	580,726
Households properties billed for sewage	000s	692,505
Non-households properties billed unmeasured sewage	000s	1,804
Non-household properties billed measured sewage	000s	41,633
Non-households properties billed for sewage	000s	43,437
Void properties	000s	10,439
Number of properties	000s	746,381
Resident population	000s	1,566,954
Non-resident population	000s	139,507
<b>Other</b>		
Energy consumption – network plus	MWh	153,921,590
Energy consumption – sludge	MWh	14,756,050
Energy consumption – wholesale	MWh	168,677,640
Population resident in National Parks, SSSIs and Areas of Outstanding Natural Beauty (AONBs)	000	175,205
Total sewerage catchment area	km <sup>2</sup>	842
Designated bathing waters	nr	144
Number of intermittent discharge sites with event duration monitoring	nr	147
Number of monitors for flow monitoring at STWs	nr	–
Number of odour-related complaints	nr	1,024
Volume of storage provided at CSOs, storm tanks, etc. to meet spill frequency requirements	m <sup>3</sup>	975
Total volume of network storage	m <sup>3</sup>	800,189

## ADDITIONAL REGULATORY INFORMATION

**TABLE 4V – Operating cost analysis – water resources**

	Impounding reservoir	Pumped storage	River abstractions	Boreholes, excluding MAR water supply	Artificial Recharge (AR) water supply schemes	Other	Total
Power	0.409	0.009	1.615	0.199	–	–	<b>2.232</b>
Income treated as negative expenditure	(0.079)	(0.002)	(0.312)	(0.038)	–	–	<b>(0.431)</b>
Local authority and Cumulo rates	0.312	0.007	1.234	0.152	–	–	<b>1.705</b>
Other direct operating expenditure	1.138	0.026	4.498	0.555	–	–	<b>6.217</b>
Other indirect operating expenditure	0.286	0.007	1.129	0.139	–	–	<b>1.561</b>
Total operating expenditure (excluding third party)	2.066	0.047	8.164	1.007	–	–	<b>11.284</b>
Depreciation	0.575	0.013	2.271	0.280	–	–	<b>3.139</b>
Total operating costs (excluding third party)	2.641	0.060	10.435	1.287	–	–	<b>14.423</b>

## Other expenditure – wholesale water

Item	Water resources	Raw water distribution	Water treatment	Treated water distribution	Total
Employment costs – directly allocated	0.812	0.478	7.104	8.545	<b>16.939</b>
Employment costs – indirectly allocated	0.636	0.264	2.584	3.227	<b>6.711</b>
Number FTEs consistent with 4V.9 above	18	10	195	229	<b>452</b>
Number FTEs consistent with 4V.10 above	11	10	49	63	<b>133</b>
Costs associated with Traffic Management Act	–	–	–	–	<b>–</b>
<b>Service charges</b>					
Canal & River Trust abstraction charges/discharge consents	–	–	–	–	<b>–</b>
Environment Agency abstraction charges/discharge consents	4.718	0.229	0.154	0.013	<b>5.114</b>
Other abstraction charges/ discharge consents	–	–	–	–	<b>–</b>
Statutory water softening	–	–	–	–	<b>–</b>

**TABLE 4W – Operating cost analysis – sludge treatment**

	Untreated sludge	Raw sludge liming	Conventional AD	Incineration of raw sludge	Incineration of digested sludge	Photo- conditioning/ composting	<b>Total</b>
<b>Sludge treatment type</b>							
Power	-	0.913	0.260	-	-	0.050	<b>1.223</b>
Income treated as negative expenditure	-	(0.200)	(0.057)	-	-	(0.011)	<b>(0.268)</b>
Local authority and Cumulo rates	-	0.567	0.162	-	-	0.031	<b>0.760</b>
Other direct operating expenditure	-	5.644	1.608	-	-	0.308	<b>7.560</b>
Other indirect operating expenditure	-	1.283	0.366	-	-	0.070	<b>1.719</b>
Total operating expenditure (excluding third party)	-	8.207	2.339	-	-	0.448	<b>10.994</b>
Depreciation	-	3.960	1.129	-	-	0.216	<b>5.305</b>
<b>Total operating costs (excluding third party)</b>	<b>-</b>	<b>12.167</b>	<b>3.468</b>	<b>-</b>	<b>-</b>	<b>0.664</b>	<b>16.299</b>
<b>Sludge disposal route</b>							
Power	-	0.001	-	-	-	-	<b>0.001</b>
Income treated as negative expenditure	-	-	-	-	-	-	<b>-</b>
Local authority and Cumulo rates	-	-	-	-	-	-	<b>-</b>
Other direct operating expenditure	-	1.847	0.565	-	-	0.064	<b>2.476</b>
Other indirect operating expenditure	-	0.396	0.121	-	-	0.014	<b>0.531</b>
Total operating expenditure (excluding third party)	-	2.244	0.686	-	-	0.078	<b>3.008</b>
Depreciation	-	0.093	0.029	-	-	0.003	<b>0.125</b>
<b>Total operating costs (excluding third party)</b>	<b>-</b>	<b>2.337</b>	<b>0.715</b>	<b>-</b>	<b>-</b>	<b>0.081</b>	<b>3.133</b>

**Other expenditure – wholesale wastewater**

Item	Network Plus sewage collection	Network Plus sewage treatment	Sludge	<b>Total</b>
Employment costs – directly allocated	5.276	11.860	0.786	<b>17.922</b>
Employment costs – indirectly allocated	1.221	2.242	0.647	<b>4.110</b>
Number FTEs consistent with line 4W.17	109	300	80	<b>489</b>
Number FTEs consistent with 4W.18 above	31	65	23	<b>119</b>
Costs associated with Traffic Management Act	-	-	-	<b>-</b>
Costs associated with Industrial Emissions Directive	-	-	-	<b>-</b>
<b>Service charges</b>				
Canal & River Trust discharge consents	-	-	-	<b>-</b>
Environment Agency discharge consents	0.753	2.473	-	<b>3.226</b>
Other discharge charges/permits	-	-	-	<b>-</b>



## COST ALLOCATION AND TRANSFER PRICING

# Transactions with associated companies and the non-appointed business

Under RAG 5.07, water and sewerage appointees have a duty to trade at arm's length and to ensure that there is no cross-subsidy with respect to transactions between the appointed business and associated companies.

Following the introduction of binding revenue price controls, appointees are also required to ensure there is no cross-subsidy between price control units.

RAG 3.10 requires disclosures of all transactions (individually and not on an aggregated basis) to be made where any single transaction exceeds 0.5% of the turnover of South West Water's appointed business. South West Water has applied a slightly lower threshold of £2.5m and thus additional disclosures to reflect the transactions with associate companies have been made.

In addition to transactions which exceed this amount, South West Water has also voluntarily disclosed below a summary of all transactions with its associated companies and any transactions with companies, whereby certain Directors of the Company have interests.

### South West Water's associated companies

South West Water is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company. A summary Group structure showing principal trading subsidiaries is shown on page 41. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 16, page 130).

### Group shared services

A limited number of functions have historically been provided across the Pennon Group as shared services (such as Independent Group Internal Audit, Treasury and Tax services). During 2017/18 certain further services have been consolidated as shared service functions to enhance both the quality and efficiency of the service.

As a result, there has been an increase in the number of services provided to South West Water by associated companies (primarily Pennon Group plc). There is also a small increase in the number of services provided by South West Water to associated Group companies, where shared services such as Information Services are provided in part by employees of South West Water.

### The non-household retail market

On 1 April 2017, the non-household retail market opened. South West Water exited the provision of retail services to non-household customers, however remains the wholesale supplier of water and wastewater services to end-users in Cornwall, Devon and small parts of Dorset and Somerset as well as providing wholesale water services in parts of Dorset, Hampshire and Wiltshire.

Non-household consumers now pay retailers for their supply and they in turn pay wholesalers based upon the retail charging schedules. Pennon Water Services, a fellow Group company, are a non-household water and wastewater retailer and therefore South West Water are now paid by Pennon Water Services for some of its non-household wholesale services. South West Water also provides meter reading services to Pennon Water Services on commercial terms consistent with those offered to other companies.

South West Water has also contracted with Pennon Water Services to manage a small number of non-regulated activities on its behalf.





## Source Contact Management

Services provided by South West Water and recharged to Source Contact Management

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Management recharges	Information Services recharges	9,653	Recharge based upon employee numbers	392
	Property	9,653	Recharge of property cost based on floor space	348
	Insurance	9,653	Recharge based upon employee numbers	240
	Other	9,653	Recharge of cost incurred	345

Services received by South West Water recharged from Source Contact Management

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Retail activities	Call centre, billing and collection services, debt recovery and customer service	9,653	Recharge of cost incurred	9,653

## Peninsula Properties

Services provided by South West Water and recharged to Peninsula Properties

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Administrative expenses	Administration services	0,573	Recharge of cost incurred	176

Services received by South West Water recharged from Peninsula Properties

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Property services	Property disposal-related activity	0,573	Market testing – benchmarking	573

COST ALLOCATION AND TRANSFER PRICING

Transactions with associated companies and the non-appointed business continued

**Viridor**

Services provided by South West Water and charged to Viridor



Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Tankered waste	Collection & disposal of tankered waste	788.947	Market testing – charged at published rates in the South West Water Non-Household Wholesale Charges Scheme	227
Other	Property and Information services	788.947	Recharge of property costs based on floor space and recharge of Information Services costs incurred	34

Services received by South West Water and charged from Viridor

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Waste collection	Collection & disposal of waste	788.947	Market testing	42



**Pennon**

## Pennon Group plc

Services provided by South West Water and recharged to Pennon Group

Service provided	Service detail	Turnover of parent (£m)	Terms of supply	Value of service provided (£k)
Information Services	Information Services recharges	12.532	Recharge based upon employee numbers	119
Property	Floor space	12.532	Recharge of property costs based on floor space	223
Other – Communications, HR, Payroll, Facilities	Other internal services provided	12.532	Recharge of salary cost incurred	114

## Services received by South West Water and recharged from Pennon Group

Service provided	Service detail	Turnover of parent (£m)	Terms of supply	Value of service provided (£k)
Corporate overheads	Board and group expenses	12.532	Recharge of cost incurred	2,016
	Investor Relations	12.532	Recharge of cost incurred	273
	Company Secretary	12.532	Recharge of cost incurred	591
	Group Expenses	12.532	Recharge of cost incurred	389
Legal	Legal services	12.532	Recharge of costs based upon timesheets and direct project costs	1,054
Independent Internal Audit	Internal audit functions	12.532	Recharge of costs based upon timesheets and specified projects	116
Group Finance	Tax, pension and accounting services	12.532	Recharge of employee costs	1,129

## COST ALLOCATION AND TRANSFER PRICING

# Transactions with associated companies and the non-appointed business continued

### Pennon Water Services

Services provided by South West Water and recharged to Pennon Water Services



Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Meter readings	Meter reading for non-household retail customers	165,942	Market testing	394
Wholesale charges	Supply of water to wholesale business	165,942	Market testing – charged at published rates in Non-Household Wholesale Charges Scheme and charged via the Market Operator	125,066
Information Services	Information Services recharges	165,942	Recharge based upon employee numbers	154
Property	Floor space	165,942	Recharge of property costs based upon floor space	182
Other recharges	Other recharges including contractor, power and vehicle costs	165,942	Recharge based on actual costs	186

### Services received by South West Water and charged by Pennon Water Services

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Guaranteed Standards of Service reclaim (customer compensation)	Charges for customer compensation	165,942	Charges in line with published GSS levels	36

In addition to the above, the South West Water non-appointed business is also recharged certain costs by Pennon Water Services in respect of management and operation of limited parts of South West Water's non-appointed activity.

### Peninsula Insurance

#### Services received by South West Water and charged by Peninsula Insurance

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Insurance cover	Organisation of insurance cover	1,087	Recharge of insurance premium	444

## Peninsula Leasing

Services received by South West Water and recharged from Peninsula Leasing

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Vehicle leasing	Vehicle leasing	0.046	Recharge of lease costs (including capital repayment)	458

## Avon Valley Limited

Avon Valley Limited was acquired by South West Water on 1 April 2016 when South West Water acquired its immediate and ultimate parent companies. In substance, the assets and liabilities, including contracts with customers were transferred to South West Water.

## Borrowings with associated companies

Associated company and type of borrowing	Principal amount £k	Repayment date	Interest rate
South West Water Finance Plc: Index linked bond 2040	133,859	2040	6.83% (fixed until July 2040)
South West Water Finance Plc: Index linked bond 2057	277,426	2057	RPI + 1.99%
Peninsula Leasing Limited: Finance leases in respect of motor vehicles	485	2018/19 to 2020/21	2.5%

## Dividends paid to South West Water's parent company Pennon Group plc

During the year, South West Water paid a total of £120.3m (2016/17 £213.1m) in dividends to its parent company Pennon Group plc.



## Notes





## **South West Water**

**South West Water Limited**

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Registered in England

No 02366665