



**South West
Water**

2020

Annual Performance Report
and Regulatory Reporting



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

Since 2016 we have also been providing water services in the Bournemouth Water region, which covers parts of Dorset, Hampshire and Wiltshire.

This Annual Performance Report and Regulatory Reporting details our 2019/20 performance against the commitments set for the 2015-20 regulatory reporting period.

Separate commitments have been maintained in each operating area.



How we benefit our stakeholders



CUSTOMERS

Our high-quality services support households and businesses in the regions we serve.



SHAREHOLDERS AND INVESTORS

Our strong business model ensures shareholders and investors get a fair return.



REGULATORS AND STAKEHOLDERS

Our ongoing engagement with regulators and key stakeholders ensures clear visibility of our business approach and performance.



EMPLOYEES

Our employees are highly valued and are key to our success. Their health, well-being and safety is paramount.



SUPPLIERS AND CONTRACTORS

The relationships we have with our suppliers and contractors are fair and deliver many regional economic benefits.









▶ See page 8 for more information about each of our stakeholder groups.

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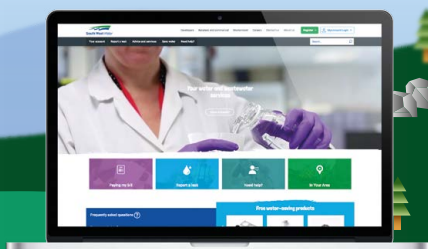
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Visit our website for more information
www.southwestwater.co.uk

WELCOME TO SOUTH WEST WATER

Our vision BRINGING RESOURCES TO LIFE

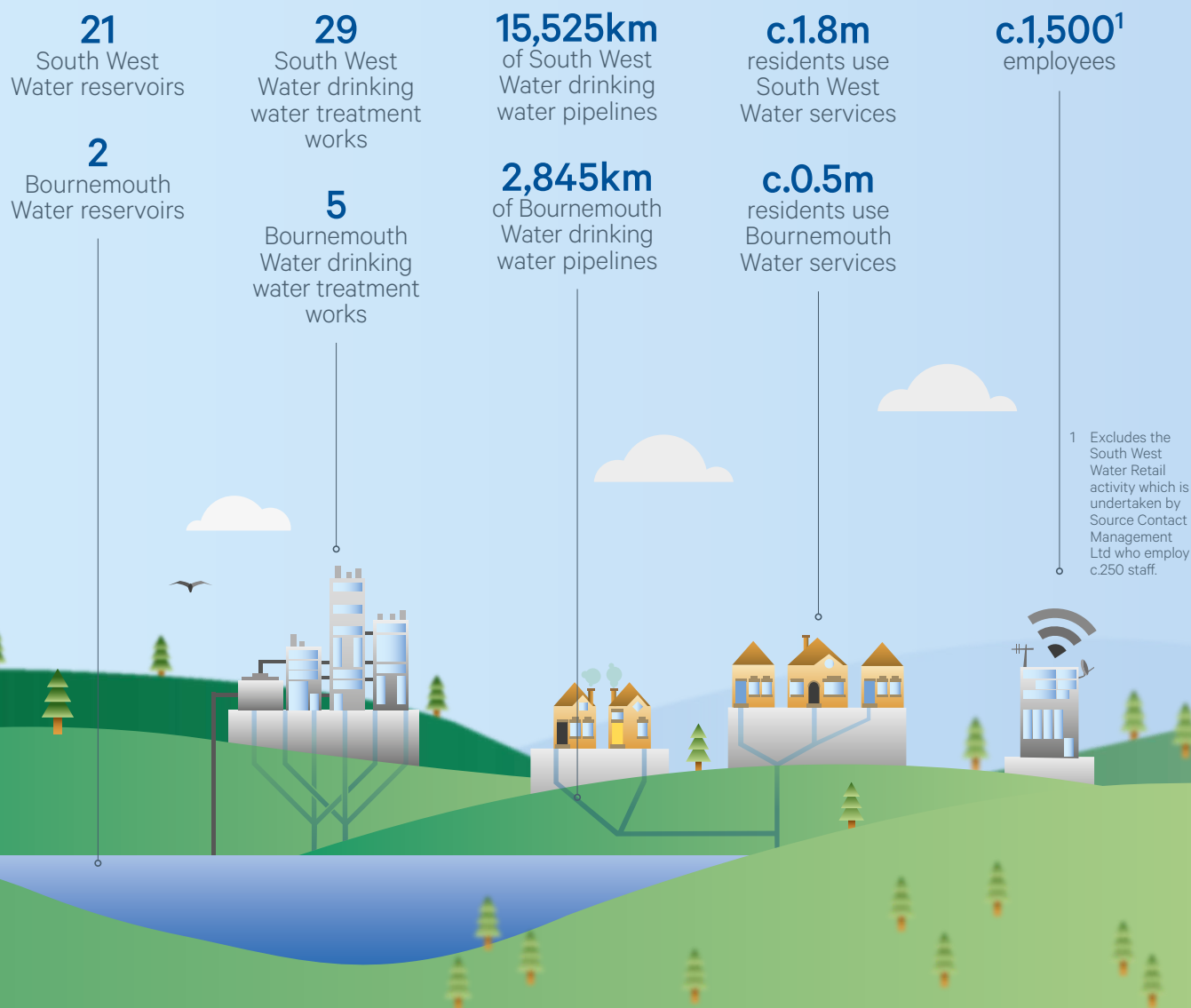
South West Water's 2015-20 Business Plan is based around eight 'outcomes'. These are reflective of customer and other stakeholder preferences with regard to levels of investment and performance as well as compliance with our legislative obligations.

We are focused on providing water and wastewater services in the most efficient and sustainable way possible. Innovation, new technologies and the pioneering of an holistic approach to water and wastewater management are delivering service improvements and long-term value.

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 of this report.

Our purpose

Our purpose is to deliver the high quality water and wastewater services our customers depend on safely, responsibly, and in the most cost-effective and environmentally sustainable way possible.





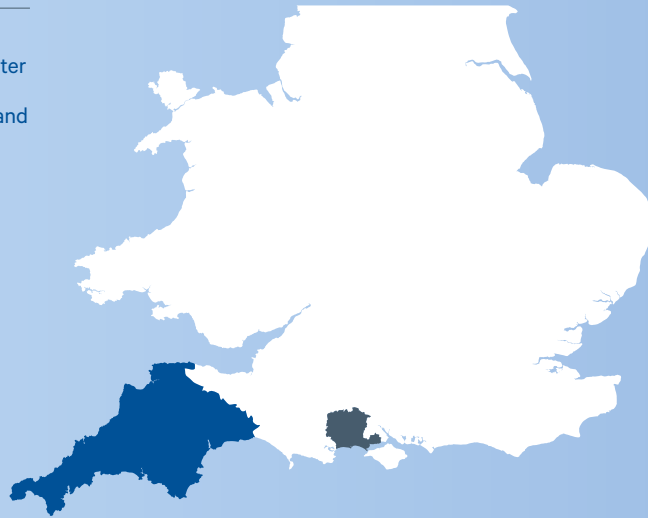
SOUTH WEST WATER

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



BOURNEMOUTH WATER

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



17,515km
of South West Water
wastewater
network

650
South West Water
wastewater
treatment works

151
bathing waters



INTRODUCTION

Welcome to our 2019/20 ANNUAL REPORT

South West Water maintained momentum in 2019/20, delivering solid operational and financial performance and making significant progress in key business areas.

As we have reached the end of the K6 (2015-20) period, South West Water remains well-positioned to forge ahead with its ambitious 'New Deal' business plan for the next five-year period having once again made good progress across all business areas during 2019/20.

In 2019/20 we once again delivered a strong financial performance with a cumulative WaterShare return on regulated equity (RoRE) of 11.8% since the start of K6.

This industry-leading performance comprises 6.0% as the base return, 2.6% totex savings and efficiencies, with 0.2% reflecting a net reward on ODIs. The remaining 2.9% reflects the difference between actual and assumed financing costs using a cumulative forecast retail price index over K6 of 2.8%, consistent with the way we calculate our innovative WaterShare mechanism. Cumulatively, this WaterShare RoRE outperformance is broadly consistent with the approach adopted by Ofwat.

During 2019/20, we continued to deliver efficiencies and delivered £297 million of savings over K6.

Operational performance resulted in a net ODI reward of £2.0 million (£13.3 million cumulatively over K6), reflecting an annual equivalent RoRE outperformance of 0.2%.

EXCELLENCE IN DRINKING WATER

On the drinking water side of the business South West Water continued to deliver outstanding quality tap water in both service areas, achieving 99.98% and 99.99% in the South West and Bournemouth regions respectively.

Careful management of resources, particularly following the unusually dry weather of 2018, ensured there were no water restrictions placed on customers in 2019, leakage levels were successfully kept in line with target and the Company outperformed its target for minimising supply interruptions. Furthermore, in the South West Water area, contacts about the taste and appearance of drinking water were reduced to their lowest ever level.

Throughout the 2015-20 period South West Water has delivered major investment in our drinking water assets and networks, exploiting the use of technology and innovation in areas such as network modelling, to improve the efficiency and sustainability of our operations.

This included the start of a c. £10 million investment in new Granular Activated Carbon (GAC) disinfection treatment processes at our College Water Treatment Works. We also carried out extensive refurbishment work on our drinking water mains networks.

In 2019/20 the flagship Mayflower Drinking Water Treatment Works in Plymouth also went into commissioning and is due to enter operations in summer 2020. The first of its kind in the UK, Mayflower is now undergoing rigorous performance testing and will provide the blueprint for future treatment facilities in the Bournemouth Water area.

MEETING CUSTOMERS' NEEDS AND EXPECTATIONS

South West Water's strategy is designed to prevent issues and problems arising, thereby avoiding the need for customers to contact us. However, when a customer does need to make contact, every effort is made to resolve the matter as quickly and as professionally as possible.

In recent years South West Water has radically improved the level of service its customers receive. In addition to investing in team development, training and internal systems the Company has taken a proactive approach to customer communications and made use of digital platforms, data analysis and 'co-creation' to improve the customer experience.

Having already surpassed its 2020 target for customer service, as measured by the Service Incentive Mechanism, South West Water continued to improve its service offering in 2019/20. For the new regulatory period, a new customer experience metric (CMex) has been introduced, and we have been focused on these changes in our delivery plans this year.

This included improving our website to increase self-service options; making digital actions easier through clearer online messages and improved navigation; and increasing webchat to provide customers with answers quickly and increase first time resolution.

Delivering services which reflect the priorities that matter most to our customers has resulted in complaints to South West Water reducing by 16.7% this year, a cumulative 56.5% reduction since 2015/16. Bournemouth Water complaints have also reduced by 66.7% during this time.

Providing value for money services remains central to all of South West Water's business activities and in cases in which customers struggle to pay their bills a range of additional support measures are available. To date, more than 35,000 customers have received support from one of our support schemes including WaterCare+ which assists those with affordability or debt issues and more than 25,000 customers are currently on a support tariff.

Customer satisfaction with overall service remains high. In 2019/20 South West Water achieved its 2020 committed performance target of customer satisfaction at 90% and there was further improvement in the percentage of customer contacts resolved first time across both drinking water and wastewater operations.

Furthermore, during the COVID-19 pandemic, South West Water has successfully maintained the vast majority of its services, having taken swift and responsive action to ensure critical operations and essential services, particularly for vulnerable customers, would be unaffected.

➔ See page 28.

HEALTH AND SAFETY

Our success as a company relies on the health, safety and well-being of our employees. Following the launch of the long-term HomeSafe strategy across the Pennon Group in September 2018, we have been implementing a range of measures and initiatives to protect our teams and support their physical and mental health. HomeSafe has given greater visibility across our operations and engagement with the training programme has been high.

In 2019/20, there were 10 RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) incidents in the South West Water area and zero RIDDOR incidents in the Bournemouth Water area. The primary causes of such incidents in 2019/20 were slips, trips and falls and manual handling issues. Management actions are ongoing to improve performance.

A core aim of HomeSafe is to improve our key safety measure known as LTIFR (lost time injury frequency rate) from the 1.5 recorded in 2018/19 to 0.50 by 2025. This would place South West Water in the top quartile of the industry.

Following the implementation of HomeSafe programme the LTIFR across South West Water reduced to 1.27 in 2019/20 and we are therefore on track to reduce this to 0.50 by 2025 as well as reducing the number of RIDDOR incidents.

INVESTMENT IN WASTEWATER IMPROVEMENTS

During 2015-20, South West Water set itself ambitious targets to improve wastewater services, reduce the risk of pollution and prevent sewer flooding.

Despite having maintained our best-ever results for wastewater treatment and reduced internal sewer floodings by 12% over K6, South West Water narrowly missed its 2020 targets in each of these performance areas. While this is disappointing, targeted action plans are in place in order to build on the significant progress made up to this point.

Similarly, following a concerted effort to reduce the risk of pollution through a range of initiatives and investments, we have seen progress in reducing in the number of serious (Categories 1 & 2) incidents. Our target of zero by 2020 was missed due to one Category 2 incident in 2019.

With respect to the less serious pollution incidents (Categories 3 & 4) we recognise that this is a challenging area for South West Water and we are fully committed to tackling these issues during the 2020-25 period.

As such, we have implemented an accelerated pollution plan. This includes:

- The implementation of a dedicated pollutions task force
- Significant increases in resources for sewer cleansing and pumping station inspection/maintenance
- Strengthening our incident response capability.

Furthermore, we are investing in improved root cause analysis, developing asset specific plans for treatment works, networks and pumping

stations, enhancing our customer campaigns to help reduce blockages and driving a culture change within the organisation.

The Environment Agency (EA), as our regulator, reviews our performance against the agreed Monitoring Certification Scheme (MCERTs) requirements and we continue to look to improve our processes against these requirements.

In May 2019, South West Water was fined £44,000 plus costs for a 2017 pollution offence caused by a blocked sewer at South Sands, Salcombe. The Company has invested £2.9 million since 2013 to address saline and sand ingress in the Salcombe area, to minimise the risk of this type of incident.

On 1 April 2019, the Environment Agency accepted an Enforcement Undertaking from South West Water to make a payment of £385,000 to the Westcountry Rivers Trust in relation to a pollution incident in Widewell Woods, Plymouth, in 2016.

📌 See pages 34 to 37 for more information.

PROTECTING THE ENVIRONMENT

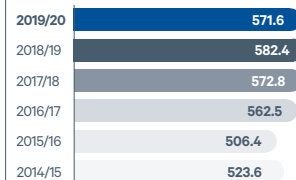
The major investment South West Water has made in measures to help protect bathing and river water quality continues to support the region's high standards in each of these areas and the Company continues to work closely with partner organisations and landowners to manage water and wastewater in a more sustainable and holistic way.

Bathing water quality results for Devon and Cornwall were once again extremely high in 2019/20 which saw the largest proportion (82.8%) of bathing waters meeting the 'excellent' criteria since this more stringent standard came into effect in 2015. All but two met the 'sufficient' standard and neither of these failures were related to the performance of South West Water's assets.

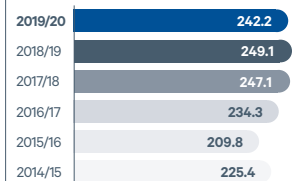
Other environmental work during 2019/20 included the completion of South West Water's 2015-20 programme of river water quality upgrades and the ongoing expansion of the Company's award-winning catchment management schemes – Upstream Thinking and Downstream Thinking. Through the former, South West Water has worked to improve the water quality at 1,604 farms located upstream of water reservoirs and river abstractions.

Financial highlights*

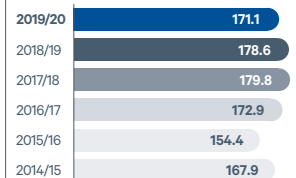
REVENUE (£m)



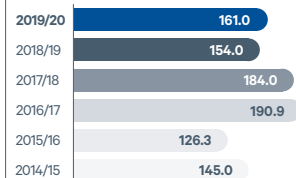
OPERATING PROFIT (£m)



PROFIT BEFORE TAX (£m)



CAPITAL EXPENDITURE (£m)



* Reflects total statutory performance.

WaterShare+

In December 2019 Ofwat, the Water Industry Regulator, published companies' Business Plan Final Determinations which set prices and service levels for the period 2020-2025.

During 2019/20 we made an early start to ensure that we can meet the challenges, deliver against our Board Pledges and performance targets as developed and agreed with our customers.

As part of our business plan for 2020-25 we have evolved our WaterShare approach introduced in 2015. WaterShare+ is an innovative voluntary mechanism for sharing regulatory outperformance with our customers, making the interests of customers and investors more aligned and offering customers a financial stake and a greater say in the business.

During 2020/21 we will be passing back £20m to customers; this accrued benefit was earned during 2015-20 and will be offered to customers in the form of Pennon shares, a reduction in their bill or a rebate.

Customers who chose to become shareholders will receive a share of company profits, in the form of dividends, have their say at the Pennon Annual General Meeting (AGM) and receive Pennon's annual report and financial statements.

Our customers already have a say in our business through the extensive engagement we have with them every day. As new shareholders in Pennon we believe this will be enhanced by offering them a tangible stake in our business.

WaterShare has been central to our engagement with South West Water customers since 2015; it has always given our customers reassurance about the transparency and openness of our business.

Our performance during 2020-25 will continue to be reviewed and challenged by an independent WaterShare+ Customer Panel and these meetings will be held quarterly, in public providing even more transparency and openness of our business. We will also be introducing a Customer Annual General Meeting (AGM) which all customers will be invited to attend. The first Customer AGM will be held in the summer of 2021.

The Company has also restored 10,655 acres (4,312 hectares) of moorland, culm grass land and other semi-natural habitats in this period. This benefits raw water quality and biodiversity while reducing flood risk.

THE IMPACT OF COVID-19

In March 2020 the impact of the coronavirus pandemic was felt across the UK. In order to continue to provide the level of service our customers expect while ensuring their safety and that of our employees South West Water enacted its Contingency Plan.

In line with Government guidance and in coordination with our regulators, industry and supply chain colleagues, this included the implementation of new working processes for frontline staff, remote working for 33% of our employees throughout the period, regular engagement with our Local Resilience forum, and a range of employee relations measures to support our people.

A detailed overview of our response can be found in the Resilience section on page 26.

GOVERNANCE

We fully recognise the importance of Board transparency and leadership and, we are committed to ensuring alignment with best practice and our strategic objectives. Following the sale of Viridor on 8 July, the Board membership and structure will be amended, having enacted the required succession plan.

Remuneration policies for 2020/21 have been amended, placing more emphasis on customer and environmental performance metrics. We are confident this will ensure the strongest governance structure in place going forward.

▶ For further detail please see page 60.

NEW DEAL

As the only water company to have achieved 'fast-track' status for two consecutive price reviews, South West Water entered the K7 (2020-25) period on 1 April 2020, having already moved forward with a number of key initiatives in support of its 'New Deal' 2020-25 business plan.

The Company will continue to invest to significantly improve services, including the delivery of the largest programme of environmental improvements in 15 years.

At the same time customer bills will be reduced – the plan will see the average customer bill in 2025 being lower than it was in 2010 and extra steps taken to eliminate water poverty.

Furthermore, the plan – which was informed by the Company's largest ever programme of customer engagement – marks a shift from customer engagement to customer empowerment through WaterShare+. Eligible customers are being given the option of a tangible stake through equity shares in Pennon, and the ability to hold the Company to account through a Customer Annual General Meeting and quarterly public meetings.

The New Deal is designed to redefine the relationship between the water company and its customers and was welcomed by Ofwat as 'setting a new standard' in the industry.

LOOKING AHEAD

The progress we have made during both 2019/20 and the K6 period (2015-20) as a whole means we are well-placed to build on our areas of ongoing success while addressing those areas in which further improvement is required.

In the near term, the strategies we have in place to deliver key performance commitments in areas such as pollution, leakage and supply interruptions are already delivering benefits and we remain committed to our pursuit of leadership in the UK water sector.

As we continue to evolve, the implementation of new technologies and sustainable ways of working will provide a direct benefit to those we serve and the environments within which we operate. With COVID-19, in particular, our resilience has been tested in ways we never previously imagined and we are proud to have risen to the challenge.

With that in mind, the Board wishes to express its thanks to our staff for their hard work and professionalism during these challenging times. As we move into a new chapter in the Company's history, we are proud of the foundations laid and encouraged by the prospect of the opportunities that lie ahead.

ISLES OF SCILLY

Water and Wastewater services



Isles of Scilly

In 2014, Defra launched a consultation on the introduction of water and sewerage legislation applying to the Isles of Scilly.

As the level of investment required to improve the services and infrastructure to meet new standards would have been well beyond what the islands' small number of bill payers could collectively afford, a water company operating on a similar basis to UK mainland regions was the Government's preferred option to deliver future services.

In March 2016 Defra wrote to all water and wastewater companies inviting them to submit expressions of interest in running the services on the islands. South West Water was the only company to confirm an interest.

South West Water assessed the condition of the water and wastewater infrastructure on the islands before submitting a business plan for the Isles of Scilly to Ofwat. Following licence amendments the Company took over responsibility for serving the five inhabited islands on 1 April 2020.

As part of South West Water's 2020-25 business plan, a programme of investment has been developed, to ensure legislative compliance, environmental benefits and resilience improvements. These will, in turn, support the local economy and contribute to island life.

Residents have been contacted and partnerships developed with the Council of the Isles of Scilly, Duchy of Cornwall and Tresco Estate to support the roll-out of operations across the Islands.

We have also begun discussions on how to work collaboratively with other on Island stakeholders to ensure our operations are sustainable and aligned with the needs of the islands' communities.

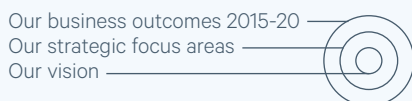
Our Operations and Programme Manager is leading our team and activities from their base on the island of St Mary's and over the next months we will be building our operational teams for greater resilience through resourcing and our short-term and longer term investment programmes.

Our BUSINESS MODEL

Our strategic focus areas

- PEOPLE AND COMMUNITY**
 Supporting our people and local communities
- FINANCE AND ECONOMY**
 Resilient business and service
- WATER**
 Clean, safe and reliable supplies
- SERVICE**
 Responsive to our customers' needs and priorities
- ENVIRONMENT**
 Environmentally sustainable actions and initiatives

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
- Achieve 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.

For the benefit of our stakeholders



CUSTOMERS

Our high quality services support households and businesses in the regions we serve.



SHAREHOLDERS AND INVESTORS

Our strong business model ensures shareholders and investors get a fair return.



REGULATORS AND STAKEHOLDERS

Our engagement with regulators and key stakeholders ensures transparency of our business approach.



EMPLOYEES

Our employees are highly valued and are integral to our success. Their health and safety is paramount.



SUPPLIERS AND CONTRACTORS

The relationships we have with our suppliers and contractors are fair and deliver many regional economic benefits.

▶ See more on page 08.

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 technology and innovation to improve efficiency and quality.

3 WE DISTRIBUTE IT TO OUR CUSTOMERS

- Ensuring that clean treated water reaches our customers at the same high level of quality as when it leaves our treatment works
- Ensuring supplies are reliable
- Preventing leaks and bursts.

4 OUR CUSTOMERS RELY ON THE SERVICES WE PROVIDE

- Ensuring customers get excellent service and that we are responsive to their needs
- 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 the associated risk of pollution.

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
- Biosolids recycling
- Energy generation from treatment processes through Combined Heat and Power (CHP) and solar panels.

Our key strengths

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 well-being, retention, training and development, productivity and, above all, an unwavering commitment to health and safety.

EFFECTIVE GOVERNANCE

A 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.

EFFICIENT FINANCING

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

ENVIRONMENTAL STEWARDSHIP

We invest in the maintenance and improvement of our services, operations and assets and constantly seek more sustainable ways of working to protect, enhance and reduce our impact on the natural environment.

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.

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 values



TRUSTED

We do the right thing for our customers and stakeholders.



COLLABORATIVE

We forge strong relationships, working together to make a positive impact.



RESPONSIBLE

We keep our promises to our customers, communities and each other.



PROGRESSIVE

We are always looking for new ways to improve and make life better.

Adding benefit for our **STAKEHOLDERS**

Stakeholder

Why is it important to engage?



CUSTOMERS

Our high quality services support households and businesses in the regions we serve.

- It is essential to have continuous engagement with our customers and stakeholders. We recognise that the impact of our decisions and actions can be significant and therefore it is important to engage with our customers to make sure they influence our decision-making, drive us to continually perform and hold us to account for our performance
- The introduction of WaterShare has strengthened the two-way engagement with our customers positively, and encourages customers to have more of a say in the business.



SHAREHOLDERS AND INVESTORS

Our strong business model ensures shareholders and investors get a fair return.

- As a private business, generating a fair return for investors is a vital part of our business model. Historically, we have shared outperformance between investors and customers. We believe there is a case for an evolutionary approach to ensure net benefits of outperformance are shared equitably and transparently through our new WaterShare+ initiative
- Investors take risks investing in the business, and a fair level of return is required to reflect this.



REGULATORS AND STAKEHOLDERS

Our engagement with regulators and key stakeholders ensures transparency of our business approach.

- Transparency and openness about delivering performance are fundamental requirements for all providers of essential public services, including those in the water industry. We already have well established processes in place for this and recognise its importance to our stakeholders
- Effective stakeholder engagement is fundamental to ensure the quality and durability of environmental decision-making
- The quality and durability of environmental decisions are likely to be far greater with the involvement of stakeholders.



EMPLOYEES

Our employees are highly valued and are integral to our success. Their health and safety is paramount.

- The health and safety of employees is paramount and we continually review our Company policies and processes in order to minimise the number of incidents
- We run a number of different training and development programmes to develop our teams' skills from our operational field teams through to development programmes in areas such as finance
- We offer a range of apprenticeships which provide excellent opportunities to start a career in the water industry. Our multi-award-winning apprenticeship scheme is a key part of our Company's future workforce plan, ensuring that employees who retire are replaced by very capable next-generation talent. Since 2011 we have recruited 327 apprentices and plan to recruit more under our next regulated business plan from 2020 to 2025.



SUPPLIERS AND CONTRACTORS

The relationships we have with our suppliers and contractors are fair and deliver many regional economic benefits.

- We have a strong commitment to sustainability and our approach is reflected in the goods and services we buy. We aim to be a sustainable company with a sustainable supply chain
- We carry out rigorous supplier qualification procedures to ensure selection of the best suppliers in each category.

How do we engage them?

- Every day we engage with our customers through day to day contacts and complaints, bills, Waterlevel (our annual magazine for customers), through tweets and Facebook links, voice of the customer surveys, tracking satisfaction surveys, focus groups, online surveys and more focused community events targeting affordability and vulnerability concerns.

- We are including a new incentive framework that allows for higher returns if we outperform.

- At South West Water we recognise how important it is for stakeholders to have trust and confidence in the information we report, on the services we provide and how we provide them. We believe that undertaking engagement for the Risks, Strengths and Weaknesses Statement and Assurance Plan is integral, as it ensures that we are meeting our customers' needs with regards to the information we provide to them.

- Our HomeSafe programme was launched and promoted internal awareness of health and safety issues
- We assigned health and safety representatives, managers' training days, and regular meetings of the HomeSafe Steering Group to support the well-being of staff
- Training is delivered in a variety of ways including on-the-job, class-based and through the use of online applications or e-learning modules.

- Operate a sustainable cost model providing a fair wage for employees and timely payment of suppliers
- Formal market reviews are carried out using our ISO9001 procedures to achieve a fair and objective process.

What value do we create?

We have a strong record of sharing the benefits of excellent performance delivery with our customers in our WaterShare framework.

£139m

Customer benefits identified for sharing since 2015

We ensure that the interests of shareholders, customers and other stakeholders are protected and that responsible business practices are adhered to.

11.8%

K6 cumulative RORE

South West Water engages with customers and stakeholders to gather specific feedback on our published documents.

85%

Rating of good or excellent for providing information that is easy to understand

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

3%

Increase in employee satisfaction from 2018

Every year we invest in third-party services to help deliver our vision.

£200m

Investment per year on services



PERFORMANCE SUMMARY

Delivering against TARGETS



 **5 of 5**
2019/20 TARGETS MET

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

 **10 of 15**
2019/20 TARGETS MET

- ✓ EA water stress status
- ✓ Drinking water pollution incidents category 1 & 2
- Wastewater treatment works descriptive compliance
- Wastewater pollution incidents category 1 & 2
- ✗ Drinking water pollution incidents category 3 & 4
- ✗ Wastewater pollution incidents category 3 & 4
- ✓ Sustainable abstractions (EA/WFD classification)
- ✓ Catchment management (acres)
- ✓ Catchment management (farms)
- ✓ Operational carbon emissions (water)
- ✓ Energy from renewable sources (water)
- ✗ Wastewater treatment numeric compliance
- ✓ Wastewater population equivalent sanitary compliance
- ✓ Operational carbon emissions (waste)
- ✓ Energy from renewable sources (waste)

 **4 of 6**
2019/20 TARGETS MET

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

 **2 of 5**
2019/20 TARGETS MET

- ✓ Operational contacts resolved first time (water)
- ✗ Operational contacts resolved first time (wastewater)
- ✓ Customer overall satisfaction
- ⊖ Service incentive mechanism (SIM)¹
- Customer satisfaction with value for money

 **2 of 2**
2019/20 TARGETS MET

- ✓ Non-compliant bathing waters
- ✓ River water quality improved

 **3 of 4**
2019/20 TARGETS MET

- ✓ Number of restrictions placed on customers
- ✓ Leakage
- Time taken to fix significant leaks
- ✓ Security of Supply Index (SoSI)

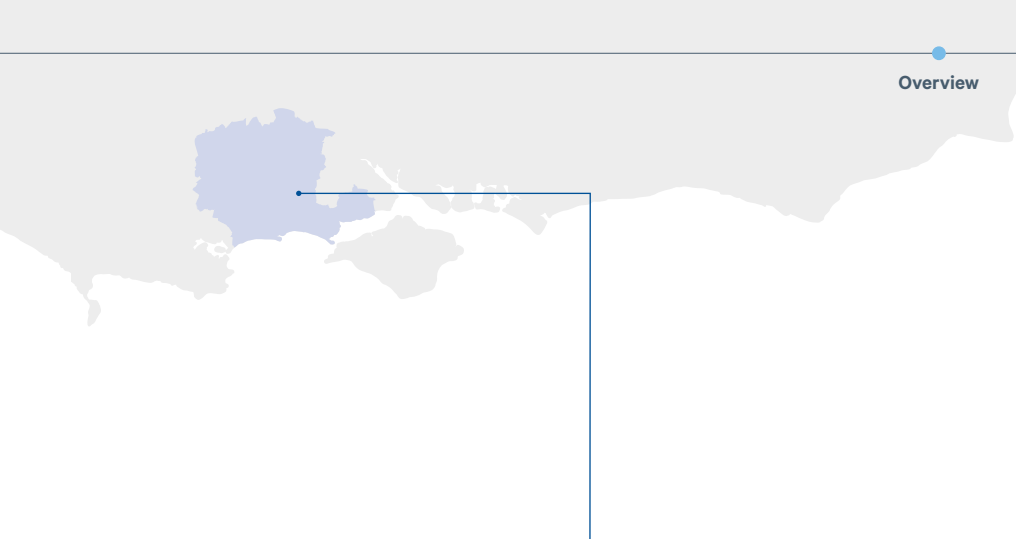
 **1 of 1**
2019/20 TARGET MET

- ✓ Supplies interrupted (>24 hrs) due to flooding on our sites

 **1 of 2**
2019/20 TARGETS MET

- ✗ Domestic customers paying a metered bill
- ✓ Customers assisted by water poverty initiatives

¹ SIM proxy, data not comparable.



Key

Result

- Met
- Not met – no financial penalty
- Not met – financial penalty
- N/A

1 of 2

2019/20 TARGETS MET

- Compliance with water quality standard
- Customer contacts: taste and appearance

1 of 3

2019/20 TARGETS MET

- Repairing visible leaks
- Service incentive mechanism (SIM)¹
- Customer relationship management system

4 of 5

2019/20 TARGETS MET

- Average length of supply interruptions
- Serviceability
- Leakage
- Large scale interruptions
- Per capita consumption

1 of 2

2019/20 TARGETS MET

- Supporting a natural environment
- Energy used in water delivery

0 of 1

2019/20 TARGET MET

- Contribute to our community

2 of 2

2019/20 TARGETS MET

- Metering
- Fair customer bills

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

This includes targets with annual performance commitments and those with 2020 performance commitments.

Of the annual targets, South West Water delivered 28 out of 40 targets and Bournemouth Water delivered 9 out of 15 targets for 2019/20.

Of the targets not met, 10 were within financial deadbands/tolerances, such that financial penalties were not incurred. Across both areas, a total of 37 of 55 annual targets were met or within this financial deadband.

Our performance detailed in this document summarises performances against all of our targets. The section includes commentary on additional South West Water Key Performance Indicators (KPIs).

See pages 12 to 47 to read about our performance.

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

OUR WATER

CLEAN SAFE RELIABLE



Outcomes



CLEAN, SAFE AND RELIABLE DRINKING WATER

Innovation, partnership working and the use of new technology are key to delivering reliable, high quality drinking water supplies.



AVAILABLE AND SUFFICIENT RESOURCES

Targeted investments are made to ensure we meet or exceed our regulatory and legislative obligations.

Current ODIs

This strategic focus area includes drinking water quality for which we have separate commitments in the South West and Bournemouth service regions. This area also includes ODIs relating to leakage and water restrictions.

Consistency measures from 2020

Some of our performance commitments will use revised definitions and units to reflect common ODIs across the sector. This reflects a new drinking water quality measure introduced by the Drinking Water Inspectorate (DWI). Other changes are being made to align our measures to those on the Discover Water comparative industry website.

Risks

The following principal risks are considered to be relevant to this area.

- Poor operating performance due to extreme weather or climate change (Risk J)
- Business interruption or significant operational failure/incidents, (Risk L)
- Non-delivery of regulatory outcomes and performance commitments (Risk N)
- Failure of IT systems, management and protection including cyber risks (Risk P).

▶ See more about Strategic impact and risk rating on pages 118 to 126.

Accountability



“

The most important thing is to know our water is safe every time we turn the tap on.”

South West Water customer

£6 billion

Investment to improve water and wastewater services since 1989

34

Water treatment works

Key



Financial (penalty or reward)



Financial (penalty only)



Reputational



Key Performance Indicator



Met



Not met (No financial penalty)



Not met



N/A

OUR WATER



Clean, Safe and Reliable DRINKING WATER

Our customers' No.1 priority.

Drinking water quality

Both SWW and BW have an excellent track record in maintaining industry leading levels of drinking water quality with performance consistently amongst the best in the industry. In 2019 SWW achieved 99.98% compliance with official drinking water quality standard, in line with target. In the Bournemouth water region 99.99% was achieved, slightly below a target of 100%.

Our day to day management of drinking water quality is based on a proactive approach using leading indicators from our on-line instrumentation and extensive monitoring programme to identify emerging issues and risks. This allows early intervention to avoid the potential impacts on customers or compliance.

Nevertheless, there is still much work to do and during the last 12 months we have received more recommendations from the Drinking Water Inspectorate than in recent years. As a result we are targeting the necessary improvements through an extensive, companywide, 'WaterSafe' campaign providing investment in our sites and welfare facilities to drive a quality culture:

- site based review and action planning – improving the overall performance of sites by driving consistent levels of maintenance, ensuring best practice

- raising the standards of site housekeeping, hygiene practices and husbandry. Cyclical programme which will target highest priority sites
- reducing the level of asset failure which in turn reduces the risk of water quality impacts
- team performance being driven by targeted and specific individual performance objectives which underpin adherence to procedures, record keeping and best practice
- rolling out Level 3 Diploma Water Industry Competent Operator Scheme in Water Treatment for all Water Treatment Technicians
- use of iAuditor tool for managers and technicians to drive consistent practice and adherence to processes/ procedures
- agreed treated water reservoirs and contact tank cleaning programme including full drain down, inspection and cleaning as well as remote cleaning techniques
- development of a targeted investment programme to address our most challenging assets for cleaning – i.e. those requiring significant reconfiguration of existing assets or temporary process streams
- ongoing review of our Quality Management System, aimed at simplification, improved documentation, access and application in the field.

Drinking water quality also benefits from our 'Upstream Thinking' programme of catchment management.

See more on page 37.

Interruptions to supply

Customers expect reliable drinking water supplies. As such, South West Water has made significant investment to minimise supply interruptions throughout 2015-20.

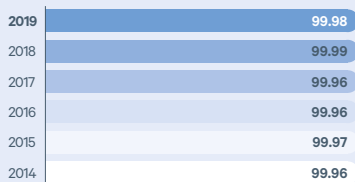
In 2019/20 we outperformed our target, with the average duration of interruptions per property reduced to 0.190 hours. This was despite a significant outage (0.02 hrs) in April 2019 caused when a third-party construction team accidentally severed one of the water mains in Exeter – an event we responded to rapidly and effectively.

Our increased use of network sensors and business intelligence is enabling us to better predict network issues and react more quickly when they occur. This is complemented by investment in alternative water supplies (see page 15), personnel, transport, and equipment to help minimise potential impacts on customers' lives and businesses.

To provide increased resilience, and ahead of ambitious targets for the 2020-25 period, we have been working on a new enhanced monitoring centre which went live during 2019/20.



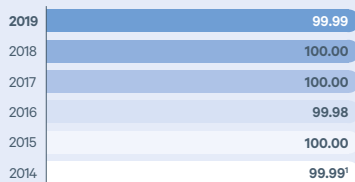
COMPLIANCE WITH WATER QUALITY STANDARDS (%)



£- 2019 target (99.98 or greater)



COMPLIANCE WITH WATER QUALITY STANDARDS (%)

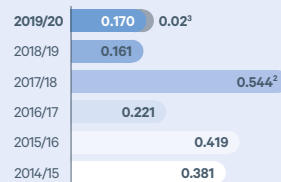


£- 2019 target (100.00)

1 Restated to align with Regulatory submission.



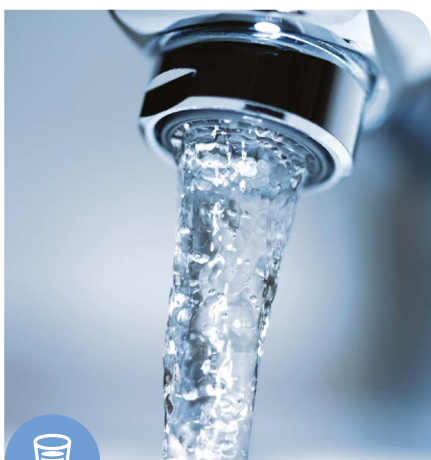
INTERRUPTIONS TO SUPPLY (hours per property)



£+/- 2019/20 target (0.200)

2 Restated to include three day freeze/thaw in March 2018 (0.399).

3 April 2019 third party outage in Exeter.



Alternative water supplies (AWS)

Recognising the vital importance of ensuring the reliability of customers' drinking water supplies, South West Water has invested in the recruitment of a dedicated Alternative Water Supplies (AWS) team, tasked with responding quickly and effectively to any network issues.

A key component of the Company's strategy to tackle supply interruptions during 2020-25, the 18-strong team is being supported with significant investment in new equipment and technology.

This includes state-of-the-art response vehicles with pumping capabilities and the capacity to be plumbed into the mains network in order to maintain supplies during mains bursts or when planned work is being undertaken.

The importance of AWS was highlighted in June 2019, following a mains burst at Bampton in North Devon. AWS resources were successfully deployed and a potentially large-scale supply interruption was avoided while emergency repairs could be carried out.

Taste and appearance

The water our customers receive not only needs to be safe to drink but also to look and taste great.

In the South West Water region the number of contacts for taste, colour and odour issues per 1,000 population has fallen by almost 45% over the last five years (and by 75% over the last decade).

In 2019, there were just 1.90 contacts per 1,000 population – well below the 2015-20 target threshold.

Meanwhile in the Bournemouth Water region, the number of contacts remained within our committed performance level at 1.01 contacts per 1,000 population.

Upgrades to water treatment works, including the increasing utilisation of GAC and UV treatment processes, and the proactive flushing of targeted drinking water mains continue to deliver progress in this area.

We continue to invest in improving the acceptability (taste, smell and appearance) of tap water as we recognise the importance our consumers place on these aspects of our service.

Over the next investment period we will invest over £100m in enhancing our treatment works and improving our raw water sources.

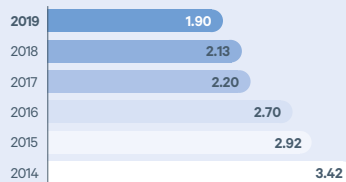
These long-term strategic investments are supported by enhanced maintenance of our network of pipes that distribute water around our regions.

These investments include the ongoing cleansing of smaller pipes through flushing and replacement, the conditioning of larger strategic pipes through smart control and an increase in the level of remote monitoring at many points along our c.18,000km of pipelines.

A smarter pipe network allows us to detect problems more quickly and intervene before customers are impacted.



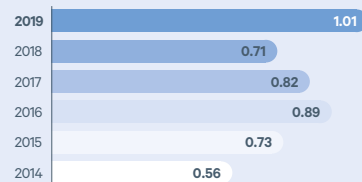
TASTE, SMELL & COLOUR CONTACTS
(Nr/1,000 population)



£+/- 2019 target (3.00)



CUSTOMER CONTACTS: TASTE AND APPEARANCE
(Nr/1,000 population)



£+/- 2019 target (1.23)

OUR WATER CONTINUED

Clean, safe and reliable drinking water continued

Number of mains bursts

Preventing burst water mains is integral to reducing the number, and duration, of supply interruptions.

In 2019/20, we succeeded in meeting our challenging target of reducing the number of mains bursts to 1,350 or less per year by the end of the year (there were 1,213 bursts) and we are focused on reducing this number further during 2020-25.

Our performance is being improved through a combination of enhanced root cause analysis, expanding our pressure management capabilities and replacing those water mains at greatest risk of failure.

Asset reliability

Asset reliability is the assessment of our ability to provide reliable services to customers, now and in the future.

The assessment takes into account a number of sub-measures across infrastructure (pipes) and non-infrastructure (processes).

In 2019/20 our overall performance remained “stable”, as it has done throughout the 2015-20 period. This demonstrates that our assets are able to provide reliable services for our customers now and into the future.

All sub-measures for infrastructure and non-infrastructure assets, across both South West Water and Bournemouth Water, were within their upper control limits for 2019/20. We have maintained an improving position for customer contacts regarding discolouration and, as such, this sub-measure was assessed as “improving”.

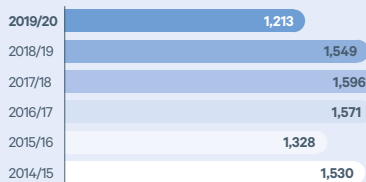
Throughout the 2015-20 period we have observed a normal level of variation in performance for all sub-measures. For example, the sub-measure ‘interruptions greater than 12 hours’ (South West Water) experienced a level of volatility during 2015/16 and 2016/17. This was due to the extreme weather events in those years and subsequently stabilised.



Our assets are able to provide reliable services for our customers now and into the future.”



NUMBER OF MAINS BURSTS



KPI 2019/20 target (1,350)



ASSET RELIABILITY

Processes



£- 2019/20 target (Stable)

Pipes



£- 2019/20 target (Stable)



ASSET RELIABILITY

Processes



£- 2019/20 target (Stable)

Pipes



£- 2019/20 target (Stable)



Implementing LEAKAGE TRANSFORMATION



The upgrades made this year provide a strong platform to deliver sustained levels of leakage reductions over the longer term.”

In 2019/20 South West Water began the implementation of a transformation programme in readiness for targeting a 15% reduction in leakage levels across the South West Water and Bournemouth Water regions by 2025.

The greater deployment of both ‘lift and shift’ acoustic loggers and fixed network acoustic loggers across our network is improving real time visibility, the targeting of leak detection activity and the productivity of our leakage detection teams.

In Exeter, the South West’s second largest city after Plymouth, we now have more than 1,300 acoustic loggers, providing daily updates which give us a much better picture of how the network is performing.

Across the South West, a number of our rural and coastal communities have poor cellular network connectivity which can be a challenge for ensuring data can be communicated from fixed network leak detection systems.

As such we have been exploring alternatives – in 2019/20 this included a trial of the Zonescan fixed network leak detection system at Fowey, Cornwall (a notoriously badly-connected area).

Alongside our pressure management of the network, the enhancements made this year provide a strong platform to deliver sustained levels of leak reductions over the longer term.

We also continue to actively collaborate with other water companies to ensure best practice is shared for the benefit of all customers.

Available and sufficient RESOURCES

Targeted investments are made to ensure we meet or exceed our regulatory and legislative obligations.

Water resources

2019 was South West Water's 23rd consecutive year without water restrictions despite a relatively dry start to the year which followed the exceptionally hot and dry weather of 2018.

Bournemouth Water's track record of no water restrictions was also successfully maintained.

South West Water's careful management of resources ensured we had sufficient supplies throughout summer 2019, despite low rainfall between January and July to fully offset the impact of the preceding 18 months.

Ahead of winter we undertook precautionary work to prepare a pumped storage scheme for our reservoir at Roadford in mid-Devon. However, the second half of the year was abnormally wet with monthly rainfall between August 2019 and January 2020 more than 130% of the long-term average – an event only seen on average in one in 25 years.

We are well-placed in terms of our water resources position and remain confident in our ability to manage our supplies and move water to where it is needed most, if required.

Leakage

Our customers feel very strongly that we should prevent water from being lost due to leakage and we continue to invest significantly to prevent and manage leaks on our network.

In 2019/20 we met our targets of 84MI/d and 20MI/d for the South West and Bournemouth Water regions respectively and we are pleased to have met our leakage targets every year since their inception.

Having accelerated our leakage activity in 2018/19 to help mitigate the impact of the dry weather we continued this work in 2019/20.

Our investments and activities included the deployment of new acoustic logging technology to help find leaks, ensuring our operations are structured in the most efficient way to help us deliver our 2020-25 Business Plan commitment to reduce leakage by a further 15%, and improving our systems to meet the new regulatory requirements for leakage reporting.

The unusually wet weather in the second half of the year and the subsequent ground movement it caused, followed by Storm Dennis and Storm Ciara in February 2020, presented operational challenges due to the extremely wet and potentially dangerous conditions. These were managed successfully, and our leakage management programme was able to continue despite the extreme weather.



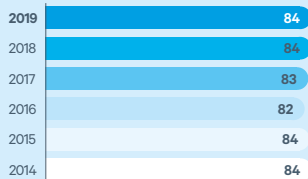
NUMBER OF WATER RESTRICTIONS PLACED ON CUSTOMERS

2019/20	0
2018/19	0
2017/18	0
2016/17	0
2015/16	0
2014/15	0

£+/- 2019/20 target (0)



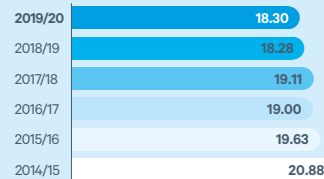
LEAKAGE (Megalitres/day)



£+/- 2019 target (84)



LEAKAGE (Megalitres/day)



£+/- 2019/20 target (20.00)

Water Resources Management Plan

In 2019/20 our Water Resources Management Plan was approved by Defra.

The plan sets out how we intend to maintain the balance between supply and demand for water over the next 25 years.

We have already started its implementation and work is underway to establish what strategic solutions may be needed to help mitigate the impacts of climate change and population growth.

The end of the 2015-20 period has also seen the start of the development of Regional Water Resource Plans covering the whole of the South West England peninsula from Bristol and Wiltshire to Devon and Cornwall. This is being delivered by West Country Water Resources Group – one of five regional groups in the country developing strategic water resource plans for all water users, not just public water supplies.

South West Water plays a lead role and helped deliver the first publication by the West Country Resources Group – our Resource Position Statement. This sets out the future water needs for the whole region and the opportunities and challenges facing all water users. The publication can be found at www.wcwr.org

Time taken to fix significant leaks

In 2019/20, we did not achieve our targeted performance of less than two days to fix significant leaks. This was primarily due to a high volume of leaks occurring in hard to reach rural areas.

We remain focused on fixing leaks as quickly as possible, recognising the importance our customers place on this. This includes beginning the implementation of our leakage transformation project.

▶ See page 17.

We continue to adopt new technologies that allow us to pinpoint leaks more quickly and are installing increasing numbers of permanent sensors that alert us to problems on our mains network.

We have also agreed a new repair and maintenance contract with our Network Alliance partner designed to improve all aspects of our performance in this area.

Security of Supply

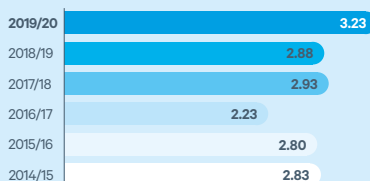
The Security of Supply Index is an industry measure which assesses the overall reliability of a company to supply drinking water.

In 2019/20 South West Water achieved a maximum score of 100 indicating that we have sufficient resources available to meet our levels of service to customers.

This means we have met the performance target every year throughout the 2015-20 period.



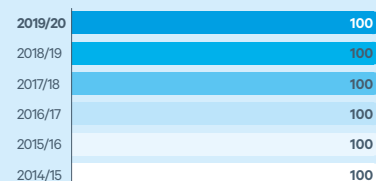
TIME TAKEN TO FIX SIGNIFICANT LEAKS (Days)



Rep 2019/20 target (<2 days)



SECURITY OF SUPPLY INDEX (SoSI)



Rep 2019/20 target (100)

OUR WATER CONTINUED

Available and sufficient resources continued

Large scale interruptions (Bournemouth Water)

In the Bournemouth Water region we successfully met our target to improve the resilience of supply to at least 12,000 properties by the end of 2019/20.

Having completed the scheme to lay a new trunk main which increased the security of supply to 4,355 properties in the Wimborne area of Dorset during 2017/18, we completed a further scheme in 2019/20 to benefit an additional 17,860 properties in the Westcliff, Parkstone and Branksome Park areas of Bournemouth and Poole.

We have therefore significantly outperformed the 12,000 property target by successfully delivering improved resilience of supply to more than 22,000 customers.

Average length of supply interruptions (Bournemouth Water)

Bournemouth Water continued to deliver industry-leading performance in minimising the duration of customer supply interruptions during 2019/20.

Our performance of 3.2 minutes per property is well within the 2019/20 target of 4.4 minutes per property and is very strong compared to the wider industry. A number of adverse events caused an increase in duration compared with the prior year.

Our success in this area has been achieved through the highly effective management and operation of our network, supported by focused activities to address any outages as quickly as possible.

To meet the challenges of 2020-25 we are expanding our capabilities to respond to supply interruptions and provide a range of alternative water supply options when necessary. This includes extra personnel to carry out supply restoration and additional tankers, lorries, pumps, plant and equipment.

We are also installing more network sensors to improve our capacity to predict potential issues before they occur.

Per capita consumption (Bournemouth Water)

Per capita consumption in 2019/20 has increased from 151.3 litres/person/day to 153.6l/p/d.

This is due to a general underlying trend in the increased use of water in the home plus increases to the data sample in Bournemouth Water used to calculate unmeasured per capita consumption. The latter shows unmeasured PCC is higher than previous estimates.

To mitigate the trend we accelerated our water efficiency programmes, reaching out to over 800,000 customers via social media, running regional radio water efficiency campaigns, developing a partnership with RHS Rosemoor for water efficient gardening and adopting innovative competitions to engage customers in water efficiency.

We have also combined this with work on customer affordability using dual billing activity to help show customers how much money they could be saving if they transferred to a meter or where their water use is higher than expected due to leaks in the home.

Work continues to reduce customer-side demand further and promote the benefits of water efficiency in homes and gardens.

Bournemouth Water

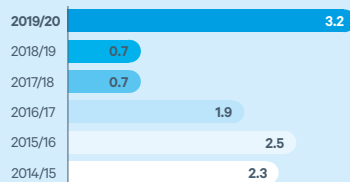
LARGE SCALE INTERRUPTIONS (Thousand properties improved)



£+/- 2019/20 target (12.00)

Bournemouth Water

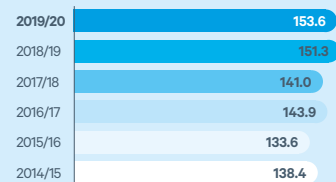
AVERAGE LENGTH OF SUPPLY INTERRUPTION (Mins/property)



£- 2019/20 target (4.4)

Bournemouth Water

PER CAPITA CONSUMPTION (l/h/d)



Rep 2019/20 target (140.0)

WATER EFFICIENCY



South West Water remains committed to working with customers and partner organisations to help reduce domestic water consumption.”



Championing responsible water usage

South West Water remains committed to working with customers and partner organisations to help reduce domestic water consumption. Our aim is to promote understanding and appreciation of water efficiency and the value of water.

In summer 2019/20, following a series of co-creation workshops with customers we launched a three-month multi-channel customer communications campaign to promote water-saving behaviour in the home and garden.

The themes of saving money and protecting the environment were incorporated into a range of materials with online surveys, competitions and water-saving product giveaways helping to capture data and customer insight.

South West Water partnered with Wessex Water on a joint radio campaign and also collaborated with RHS Rosemoor to promote water efficiency within the gardening community.

The campaign had an extremely positive response and is helping to shape our water efficiency plans for the 2020-25 period.

25,000

online survey submissions

73%

increase in the number of water-saving devices ordered through the 'Save Water, Save Money' website

OUR SERVICES

VALUED AND TRUSTED





They are key workers and as such provide a vital service. It is comforting to know someone will be there to help if we have problems and to keep things running smoothly.”

South West Water customer

Outcomes



RESPONSIVE TO CUSTOMERS

Meeting our customers’ needs and ensuring value for money is critical to our success as a business.



RESILIENCE

We are committed to improving the quality and responsiveness of the services they depend on.

Current ODIs

Our aim is to provide customers with the highest standards of service and this is reflected in a number of ODIs relating to customer service, including the industry-wide measure, SIM.

Our current ODI is focused on flooding. Further ODIs relating to the resilience theme are shown in other outcomes.

Consistency measures from 2020

There is an increase in the number of commitments in respect of ‘responsive to customers’ for 2020-25 to reflect tailored customer service that meets the needs of all our customers (such as those on our priority service register). SIM will be replaced by revised customer service metrics (C-MeX and D-MeX).

We are expanding the focus of our resilience outcome for 2020-25, with more ODIs, to recognise service as being broader than just extreme conditions.

Risks

The following principal risks are considered to be relevant to this area.

- Poor customer service/increased competition leading to loss of customer base (Risk K)
- Business interruption or significant operational failures/incidents (Risk L)
- Non-delivery of regulatory outcomes and performance commitments (Risk N)
- Failure of IT systems, management and protection including cyber risks (Risk P).

▶ See more about Strategic impact and risk rating on pages 118 to 126.

Accountability



Key

Financial (penalty or reward)	Financial (penalty only)	Reputational	Key Performance Indicator
Met	Not met (No financial penalty)	Not met	N/A

OUR SERVICES

Responsive to CUSTOMERS

Meeting our customers' needs and ensuring value for money is critical to our success as a business.

Customer service

South West Water has seen significant progress in its customer service scores throughout the 2015-20 period. In 2018/19 we achieved our best-ever performance against the Service Incentive Mechanism (SIM) – the industry-wide measure of customer satisfaction – beating the 2020 score ahead of target and being placed second in the overall industry customer experience league table.

In the same year Bournemouth Water also continued its excellent performance against SIM and was placed third in the industry overall.

Having made significant improvements in customer service as measured by SIM we have continued to improve our service offering. SIM did not operate in 2019/20 as the year was used to test the upcoming regulatory period's new customer experience metric (C-MeX) in 'shadow'. Over the past year the Company's focus on improving customer service has included: improving our website to increase self-service options; making digital actions easier through clearer online messages and improved navigation; and increasing web-chat to provide our customers with answers quickly and increase first time resolution.

Delivering services which reflect the priorities that matter most to our customers has resulted in complaints to South West Water reducing by 16.7% this year, reducing to 56.5% since 2015/16. Bournemouth Water complaints have also reduced by 66.7% over this period.

Customer satisfaction

Customer satisfaction with overall service remains high.

In 2019/20 we reached our performance commitment target for 2020 with results for 2019/20 at 90% for South West Water.

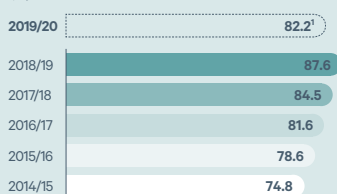
Customer satisfaction with value for money has declined compared to last year's best ever score. However, satisfaction levels during 2015-20 have increased on average by 15%, compared to the previous five years, reflecting our commitment to ensure any rise in average household bills has been less than Retail Price Index (RPI) inflation over the period.

Looking ahead to 2020-25, we are retaining 'customer satisfaction with value for money' as a reputational performance commitment, targeting an increase to 75% satisfaction by 2025.

We will continue to monitor customer satisfaction with overall services as an internal key performance indicator alongside the Ofwat industry measure C-Mex.



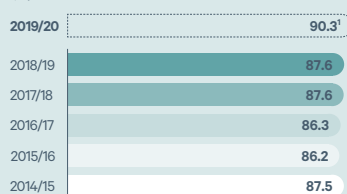
CUSTOMER SERVICE (SIM) (%)



£+/- N/A



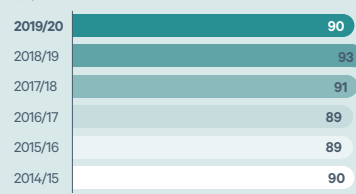
CUSTOMER SERVICE (SIM) (%)



£+/- N/A

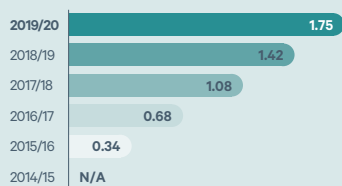


CUSTOMER SATISFACTION (%)



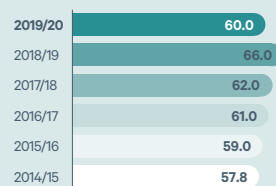
Rep 2019/20 target (90)

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)



£- 2019/20 target (1.18)

CUSTOMER SATISFACTION WITH VALUE FOR MONEY (%)



Rep 2019/20 target (90.0)

1 SIM proxy, data not comparable to previous years.

Resolving contacts first time

Preventing any issues which cause customers to contact us is the foundation of our customer service strategy. When there is an issue, our aim is to resolve it as quickly and professionally as possible.

In the drinking water side of the business we continued to deliver strong performance for first-time contact resolution, exceeding the in-year target for the fourth successive year.

Meanwhile in wastewater, we achieved our best ever performance for this measure, reaching 93.6%. While this was slightly below target it reflects an ongoing focus on improving response times and keeping customers informed.

Repairing visible leaks

Our team of leakage experts works around the clock prioritising and fixing leaks as quickly as possible.

The percentage of all visible leaks fixed within seven days was 65.0% in 2019/20.

Unfortunately, not all leaks can be dealt with as promptly as we would like. Some require extra planning, such as road or lane closures so the work can be carried out safely. We liaise closely with the highway authorities, customers and other stakeholders so that any work can be completed at a time that causes the least amount of disruption.



Introduction of Customer Measure of Experience (C-MeX)

On 1 April 2020 SIM was replaced by a new industry-wide measure of customer satisfaction – the Customer Measure of Experience (C-MeX). This is designed to incentivise companies to further improve the experience they provide to customers. In 2019/20 the measure was run in 'shadow' to allow further testing in readiness for implementation.

In preparation for C-MeX we will continue to identify new ways of listening to our customers, improving our processes and policies to ensure we continue to meet their needs and expectations.

Our 2019/20 shadow year C-MeX score is 76.35. The methodology for reporting C-MeX changes in the 2020-25 reporting period. Applying that methodology to our 2019/20 performance would give us a higher score.



OPERATIONAL CONTACTS RESOLVED FIRST TIME (DRINKING WATER) (%)



£+/- 2019/20 target (95.0)

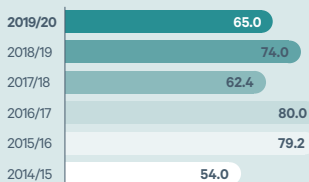
OPERATIONAL CONTACTS RESOLVED FIRST TIME (WASTEWATER) (%)



£+/- 2019/20 target (95.0)



REPAIRING VISIBLE LEAKS (%)



£- 2019/20 target (85)

RESILIENCE

Customers expect us to provide services that are secure, safe and reliable, even in extreme conditions. As such, South West Water is committed to ongoing investment and planning to ensure we maintain resilient services and operations, now and in the future.

Our approach to resilience

Disruption can take many forms and the extreme events that can affect our business range from flooding, drought and fire, to the threat of criminal or terrorist activity. In 2020, resilience was tested in unprecedented ways with the onset of the global COVID-19 pandemic (see page 28).

As part of our PR19 Business Plan we published our progress and plans towards the provision and maintenance of a long-term resilient and reliable service for customers.

This includes:

- making further provisions to protect our assets against natural disasters (flood defence schemes are one example)
- developing our security capabilities to further reduce the threat from malicious attacks (vandalism/extortion), terrorism or sabotage
- actively monitoring and upgrading our IT systems as appropriate to protect our system data and capabilities from the risk of cyber attacks

- embracing innovation and working with partner and academic institutions to ensure we are delivering cutting edge solutions and securing invaluable benefits
- ensuring that our services are delivered in a manner that provides societal, economic and environmental benefit
- engaging with national forums and working groups to derive a common set of performance metrics that will enable resilience to be measured across the industry
- working with partner agencies to ensure that we are prepared for and adhere to best practice in the event of an emergency.

Following our Final Determination in December, we have reviewed the feedback Ofwat provided on our Resilience Action Plan and continue to work towards implementing a fully integrated resilience framework.

Furthermore, the approval of our 2020-25 business plan has enabled some headline investment programmes to move into detailed design.

This includes investment in two new water treatment works within the Bournemouth Water area in addition to additional Granular Activated Carbon (GAC) and manganese removal processes within the South West Water region. Both are aimed at improving the quality of drinking water, with work at College Drinking Water Treatment Works making good progress during 2019/20.

The four 'Rs'

The need for companies to avoid reliance on single assets

Making sure systems and assets are afforded adequate protection



The ability to respond to an event or incident in a timely, proportionate and cost effective manner

Ensuring that systems and assets are designed in such a way that operation can be maintained in the event of risks being realised

Mitigating the potential impact of extreme weather and security threats

Following 2018/19, which was dominated by exceptionally hot and dry weather in our region, 2019/20 saw a recovery in water resources with higher than average rainfall helping to replenish raw water storage.

The extreme storm conditions during January and February 2020 placed additional pressure on our water and wastewater assets. However our investments in backup systems and processes meant that we minimised the potential impact to our customers.

During 2019/20 we carried out a number of activities to enhance resilience across the business.

We have:

- refurbished and refocused our Service Support Centre (SSC) in Exeter to enhance our response to, and management of, incidents and events
- continued to actively engage with our regions' Local Resilience Forums (LRFs) and taken part in several exercises during 2019/20
- invested in vactoring capability to enhance maintenance within the sewerage network and Sewage Pumping Stations (SPS) whilst extending the successful Management and Operation of Sewerage Strategy (MOSS) programme during the year through increased 'hot spot' interventions

- recruited, trained and deployed a dedicated Alternative Water Supplies (AWS) team (see page 15), tasked with responding quickly and effectively to any network issues
- increased investment in our Operational Technology (OT) skills and resources to ensure the threat from cyber-attack is minimised and that we also leverage as much benefit as possible from our various programmes to increase centralised remote control of our assets
- reviewed and re-tendered several key contracts. The working arrangements bring additional integration encompassing both drinking water and wastewater networks, which enhances our resilience and deployment of resources during reactive events and incidents
- accepted the licence to operate the water and sewerage services on the Isles of Scilly. Our investments in people, assets and the deployment of our systems and processes will improve the network standard and make services more resilient for islanders and visitors, thereby supporting a more sustainable future for the islands' communities.



We make sure our business is structured in the best way possible to protect it from any threat. Furthermore, when things do go wrong we aim to respond as quickly and efficiently as possible.”



SUPPLIES INTERRUPTED (>24 HRS) DUE TO FLOODING ON OUR SITES

2019/20	0
2018/19	0
2017/18	0
2016/17	0
2015/16	0
2014/15	0

£+/- 2019/20 target (0)

OUR SERVICES CONTINUED

Resilience continued

COVID-19

The emergence of the coronavirus crisis in March 2020 presented South West Water and the wider water industry with a variety of challenges, not least the logistical and technical challenge of maintaining essential services to customers while ensuring social distancing among frontline workers.

The health, safety and well-being of our people has been our priority throughout.

New working processes, cleaning regimes, adjusted shift patterns and restrictions on non-essential visits to treatment works and other non-essential activity were introduced, while those able to work from home were supported to do so.

We successfully ensured the right personal respiratory protective equipment (RPE) and workplace protections were in place and made the most of technology and digital platforms to ensure good lines of communication between teams.

To support customers facing difficult financial circumstances we took steps to ensure they would be provided with support in the most appropriate way.

This included automatically extending social tariffs and payment plans and proactively identifying and contacting those customers most in need.

Following the announcement of 'stay at home' guidance on 23 March 2020 we introduced a dedicated Priority Services register for those self-isolating. We also immediately implemented a range of additional measures and processes to prevent any risk of contracting or spreading the virus while carrying out essential work in the community.

In addition to working closely with our industry peers, we supported colleagues in the emergency services, NHS and local authorities on a variety of initiatives to protect public safety and well-being.

One example was the donation of an incident support vehicle to East Cornwall Primary Care Network (PCN) for use as a temporary consulting room.



The team from South West Water reached out in response to our public appeal, offering their help and assistance to GPs in East Cornwall.”

East Cornwall PCN

Mitigating the potential impacts of Brexit

Following the result of the Brexit referendum in 2016 and into the current transition period which is due to end on 31 December 2020, South West Water has been working to assess the potential impacts of Brexit and ensure measures are in place to prevent any disruption to services.

The most immediate risks identified relate to a potential No-Deal Brexit; in particular the knock-on effect this could have on the supply chain for chemicals and fuel.

Working closely with our industry peers, trade bodies including Water UK, Government and supply chain partners we have carried out planning for a range of scenarios and taken proactive action to mitigate any potential disturbance to normal arrangements. This includes investment in additional fuel storage capacity.

EU directives have driven improvements in water and wastewater quality and for the environment since the water industry was privatised in the 1980s. From 1 January 2021 the Government has confirmed its commitment to maintaining environmental standards and international obligations and we will continue to work closely with the Department for Environment, Food and Rural Affairs (DEFRA) and our regulators to ensure ongoing compliance post-Brexit.



Centre for Resilience in Environment, Water and Waste (CREWW)

A key innovation in South West Water's PR19 Business Plan, CREWW was launched on 2 April 2019 with a £20.9m investment from South West Water and a £10.5m grant from Research England. Its purpose is to investigate the many pressing environmental and operational challenges facing the water sector due to climate change and population growth.

Central to that focus will be how we can maintain our services, whilst managing our precious natural resources to ensure there is sufficient water to cope with population growth, the pressures of climate change, and improving our resilience to the impact of flood, drought and emerging pollutants, as well as predicting and preventing pollution from the wastewater network.

Alongside the research programme, a purpose-built centre will be created in the new "Project North Park" on the University of Exeter's Streatham campus, which will enable us to enhance water efficiency, create better water treatment processes and reduce potential impacts on the natural environment.

This is vital if we are to make informed, sustainable choices about how we manage water supplies in the future.

“

Building upon our more than 10-year research track record with South West Water, we will answer a wide range of challenging questions that will help the water industry deliver environmental improvements whilst safeguarding water supply and improving water treatment.”

Professor Richard Brazier,
University of Exeter



OUR ENVIRONMENT

ESSENTIAL FOR LIFE

Outcomes



RELIABLE WASTEWATER SERVICES

The health of the natural environment is essential.



PROTECTING THE ENVIRONMENT

In every aspect of our operational activity we seek to minimise our impact on the environment while making enhancements to it where possible.

Current ODIs

Our current ODIs support our aim of seeking to minimise our impact upon the environment, whether in reducing the number of pollutions across drinking and wastewater services or in improving the compliance at wastewater treatment works.

Consistency measures from 2020

As well as continuing to include ODIs relating to pollution incidents, our 2020-25 plan includes ODIs in respect of biodiversity. This reflects increasing customer and stakeholder priorities in supporting habitats and conservation and improving the wider environment.

Risks

The following principal risks are considered to be relevant to this area.

- 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-delivery of regulatory outcomes and performance commitments (Risk N).

▶ See more about Strategic impact and risk rating on pages 118 to 126.

Accountability



Climate change, population growth and increasing customer expectations are key challenges facing the water industry, so it's vital to invest in finding new innovative and environmentally sustainable solutions."

Ed Mitchell,
Director of Environment & Sustainability,
Pennon Group and Director of Wastewater
Services, South West Water

£20.9m

Funding for pioneering new centre for Resilience in Environment, Water and Waste

Key



Financial (penalty or reward)



Financial (penalty only)



Reputational



Key Performance Indicator



Met



Not met (No financial penalty)



Not met



N/A

Reliable WASTEWATER SERVICES

Removing and disposing of wastewater safely and efficiently.

Internal sewer flooding

Internal sewer flooding can be caused by a number of factors including blockages in our network or when the network becomes overwhelmed by a combination of sewage and rainfall during wet weather.

Over 2015-20 the number of internal sewer flooding events decreased by 12%. However, after a record low number of internal sewer floodings in 2018/19, the extremely wet weather in 2019/20 contributed to an increase which unfortunately took us above our end-of-period target. These events are being investigated and we will be making targeted investment to alleviate the capacity issues.

Reducing the number of internal sewer flooding incidents caused by blockages in our network continues to be addressed through a range of measures including sewer cleansing, enhanced monitoring and our award winning 'Love Your Loo' programme aimed at changing customer behaviour.

In 2019/20 we also piloted an enhanced Fats, Oils and Greases campaign in which we worked with commercial premises in blockage hotspot areas to reduce the amount of fat being put down sinks.

Furthermore, our focus on proactive investigation, cleaning and repair of sewers is also helping to reduce the risk of flooding.

External sewer flooding

Over 2015-20 the number of external sewer floodings declined by 9%.

This improving trend continued in 2019/20 and we have outperformed our end-of-period target.

We continue to see the benefit from our aforementioned 'Love Your Loo' programme aimed at changing customer behaviour and reducing blockages in our network.

Our ongoing improvement in sewer flooding performance provides a strong platform to meet the challenging targets we have set ourselves for further reducing external flooding over the next five years.

Odour contacts

In 2019/20 the number of odour contacts received was 242 – a marked reduction on the previous year which means we have outperformed our target of a maximum 300.

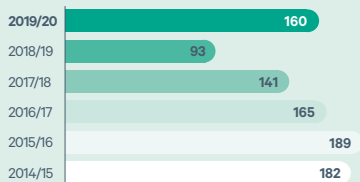
We are strenuous in our efforts to minimise the inconvenience that unpleasant odour causes to people, and welcome feedback as this helps us target our efforts.

Where appropriate, we establish liaison groups to work with the local community to identify the source of smells and change operational practices or deliver investments that reduce any impacts.

This is supported by a rolling programme of odour control media replacement and adherence to the site-specific Odour Management Plans.



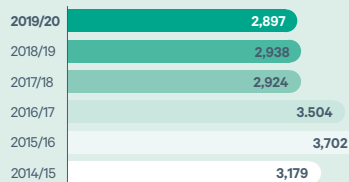
INTERNAL SEWER FLOODING (Nr)



£+/- 2019/20 target (135)



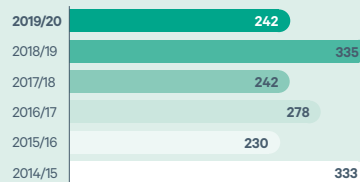
EXTERNAL SEWER FLOODING (Nr)



£+/- 2019/20 target (3,200)



ODOUR CONTACTS (Nr)



£+/- 2019/20 target (300)

Sewer blockages and collapses

The number of sewer blockages and collapses has reduced by almost a quarter between 2015 and 2020.

Our internal target to ensure the number of sewer blockages and collapses is below 9,200 by 2021 is on track, with a further reduction again in 2019/20.

Sewer blockages are a lead indicator for flooding and pollution from our network.

The reducing trend demonstrates that our programmes of work to reduce blockages in the network through investigating, cleaning and repairing sewers and our 'Love Your Loo' campaign will continue to help reduce the more significant impacts of pollution and flooding on our customers and the environment.

Compliance with sludge standards

South West Water recycles treated sludge, known as 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.

Our performance for 2019/20 was 99.55% due to a small number of issues associated with our previous recycling contractors. Our biosolids compliance has been reviewed with reference to the Biosolids Assurance Scheme and the recently re-tendered contract for biosolids recycling. We anticipate returning to 100% compliance in future years.

Asset reliability

Wastewater asset reliability defines whether the Company's assets can continue to deliver a reliable level of service now and into the future.

It is determined by nine performance sub-measures for wastewater treatment (processes) and wastewater network (pipes). The sub-measures are shown in Table 3B.

▶ See page 160.

All three wastewater treatment measures within asset reliability continue to show improvement, with the two compliance measures both showing performance better than the minimum control threshold. Wastewater compliance has increased and unplanned maintenance has reduced throughout the 2015-20 period. Performance for wastewater treatment is therefore classified as 'stable'.

Performance for wastewater network (infrastructure) is based upon six measures.

Sewer collapses / bursts and flooding (other causes) have remained consistent to previous years and remain within control limits.

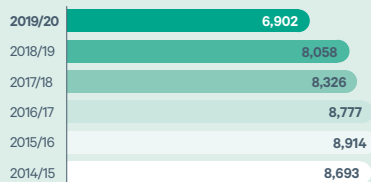
Sewer blockage incidents have continued to reduce. This can be attributed to a reduction in sewer misuse as a result of South West Water's 'Love Your Loo' and 'Think Sink' campaigns.

Pollution incidents remain an area of focus where further reductions are being targeted.

Overall, the wastewater infrastructure asset reliability measures have remained within control limits throughout the 2015-20 regulatory period and therefore performance is classified as 'stable' overall.



SEWER BLOCKAGES AND COLLAPSES (Nr)



KPI 2019/20 target (9,200)



COMPLIANCE WITH SLUDGE STANDARDS (%)



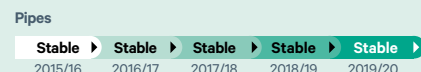
Rep 2019/20 target (100.00)



ASSET RELIABILITY Processes



Rep 2019/20 target (Stable)



Rep 2019/20 target (Stable)

Protecting the ENVIRONMENT

In every aspect of our operational activity we seek to minimise our impact on the environment while enhancing it wherever possible.

How wastewater compliance is measured

South West Water's wastewater treatment works consented discharges are governed by either 'numeric' or 'descriptive' permits.

Numeric consents place measurable numeric conditions on the final effluent, whereas descriptive permits may impose narrative conditions upon equipment used and/or impacts upon the environment which must be prevented.

We report performance annually for percentage compliance with each of these categories of permit as well as percentage compliance on a 'population equivalent' basis – the percentage of the population served by compliant works.

Wastewater treatment standards

South West Water has made considerable progress in improving the standard of the water it returns to the environment over the past five years and we achieved our best-ever performance for the number of compliant wastewater treatment works in 2018.

In 2019, four of the 305 sites assessed were deemed non-compliant by the Environment Agency which meant we narrowly missed our 100% compliance target for the end of the period.

Against the 'Descriptive Compliance' measure (see explanation left) two works were deemed to be non-compliant in 2019 – a very slight deterioration from 2018 when there was only a single failure.

Our performance against the 'Population Equivalent Sanitary compliance' for the 2019 calendar year was 100% – our best result to date.

At the end of the 2019/20 various improvements were identified that were required in order to meet the MCERTs standards necessary for certification of our water and wastewater discharge permits. We have established an Executive led programme team to oversee the delivery of all of the necessary improvements and actions required to meet these requirements and achieve MCERTs recertification in August 2020.

Preventing pollution (wastewater)

Serious pollution incidents are known as Category 1 incidents (the most serious) and Category 2 incidents, while less serious incidents fall into Categories 3 and 4.

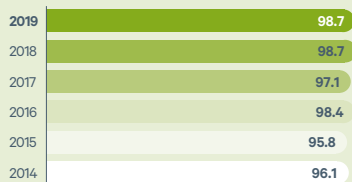
In 2019 South West Water had zero Category 1 incidents and a single Category 2 incident.

Our progress to date has been achieved through a range of programmes including:

- dedicated cleansing teams for pumping stations
- increased cleansing of sewer networks
- a programme of sewer investigation, cleansing and repair
- additional funding to target pumping stations and networks that have had repeat pollutions
- working more closely with local suppliers and universities to develop enhanced network intelligence techniques.



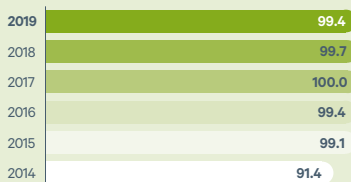
NUMERIC COMPLIANCE (%)



£- 2019 target (100.0)



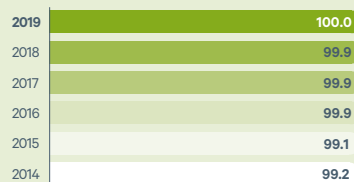
DESCRIPTIVE COMPLIANCE (%)



£- 2019 target (100.0)



SANITARY COMPLIANCE (%)



Rep 2019 target (100.0)



Pollution strategy

Our long-term vision to 2050 is to be the industry leader in minimising Category 3 pollutions and to eliminate harmful (Category 1 and 2) pollutions altogether.

Recognising our performance for minor pollutions is not where we targeted at this point, we have implemented an accelerated pollution plan.

We are advancing a number of actions to help achieve our 2020-25 targets. Specifically, this includes:

- a pollutions task force to manage the actions within our fast track plan
- significant increases in resources for sewer cleansing and pumping station inspection/maintenance
- strengthening our incident response capability.

Furthermore, we are investing in improved root cause analysis, developing asset specific plans for treatment works, networks, and pumping stations, enhancing our customer campaigns to help reduce blockages and driving a culture change within the organisation.

Despite these efforts, the number of less serious (Category 3 and 4) incidents increased in 2019 and we recognise that further work is required to reduce this.

Minor pollutions from our sewer networks were reduced by around a fifth but unfortunately those from our treatment works and pumping stations increased.

These assets are being targeted with additional programmes of work including bespoke maintenance programmes focusing on the most sensitive sites and processes, and enhancements to business intelligence systems to provide more targeted risk information.

We are also reviewing our structures to create more focus, resilience and support for our teams. This will enable a more proactive approach to preventing pollution including the ability to react more quickly and effectively to any issues.

Preventing pollution (water)

South West Water's excellent track record of preventing any serious pollutions within drinking water continued in 2019, and we achieved our end-of-period target of zero serious incidents.

We also achieved a modest decrease in the number of less serious (Category 3 and 4) pollutions (reducing from 12 to 10) as our range of improvement initiatives has become embedded within our teams and contracting partners.

Our ongoing improvement activities include:

- pollutions awareness campaigns for our field teams
- a review of pollution management processes and the formalisation of new procedures and escalation processes
- careful management of higher-risk activities including chemical deliveries, sludge dewatering and storage, network maintenance and burst repairs
- investment in new Rapid Response Vehicles through our strategic partnership with Kier. The units are equipped with silt management units and high volume pumps, giving us increased ability to manage escapes of water from our network.

Sustainable abstraction

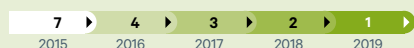
Sustainable and compliant abstraction is vital to the long-term sustainability of the environment.

The very wet weather experienced during periods throughout the last year led to a very small number of over-abstractions of between 0.3% and 3.5% on four days, as we managed the impact of the conditions on our operation in order to protect the quality of water supplies to customers.



WASTEWATER POLLUTION INCIDENTS

Cat 1&2

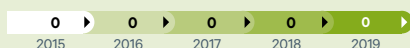


Cat 3&4



DRINKING WATER POLLUTION INCIDENTS

Cat 1&2

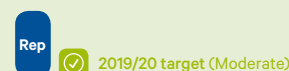


Cat 3&4



SUSTAINABLE ABSTRACTIONS

Sustainable abstractions (EA water stress status)



Number of EA/WFD¹ improvements required



1 EU Water Framework Directive.

OUR ENVIRONMENT CONTINUED

Protecting the environment continued

Carbon emissions

South West Water kept carbon emissions well below the overall 2019/20 target threshold of 150ktCO₂e, continuing our recent trend of reducing operational emissions.

The balance of reductions differs between water and wastewater activities.

Carbon emissions from water activities dropped by 8% during 2019/20. Meanwhile, in the wastewater area of the business the reduction was lower, at 0.05%. This was due to the high level of rainfall towards the end of 2019/20 which necessitated increased levels of pumping to deal with the wastewater volume.

The continued decarbonisation of UK grid electricity has played a significant role in helping South West Water sustain year-on-year reductions in emissions. Coupled with the steps we have taken to control our energy usage, we continue to move towards our longer-term carbon reduction aspirations.

South West Water continues to be certified to the Energy Management Systems standard ISO 50001. In 2019/20 we continued to survey significant energy use sites and rolled out advanced asset monitoring. This programme of work will continue into 2020/21.

Energy used in water delivery

Within the Bournemouth area we have measured the efficiency of our processes based on a measure of kWhs of grid imported electricity per megalitre (ML) of water supplied into the distribution network.

During 2019/20 this value was 615.68kwh/ML, which reflects the addition of new processes to protect the quality of customer supplies, including further UV treatment at our works in the Bournemouth Water area.

Energy from renewable sources

The proportion of electricity South West Water uses which is generated from renewable sources continued to increase in 2019/20 and we outperformed our target of more than one-fifth (at 22.9%).

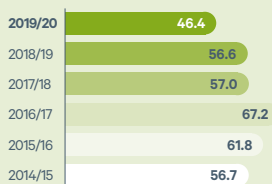
Both drinking water and wastewater functions have increased their shares of renewable electricity usage, at 15.80% and 8.77% respectively.

The majority of the renewable electricity which South West Water sources is self-generated through a combination of hydro power (4%), Combined Heat and Power (CHP) (2%), photovoltaic (PV) solar (0.6%) and wind (<0.08%).

In addition, the Company purchases renewable electricity via power purchase agreements with third party solar PV electricity providers. For these types of energy power is supplied through private wire with the solar PV arrays located adjacent, or in close proximity to, South West Water sites. In 2019/20 this form of renewable electricity sourcing contributed 2.1% of our total electricity consumption.

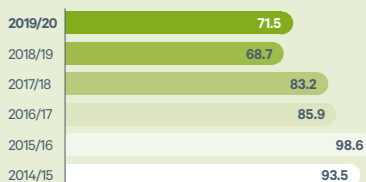


CARBON EMISSIONS (WATER) (%)



Rep 2019/20 target (48)

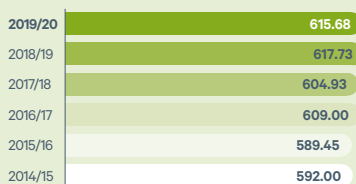
CARBON EMISSIONS (WASTEWATER) (%)



Rep 2019/20 target (102)



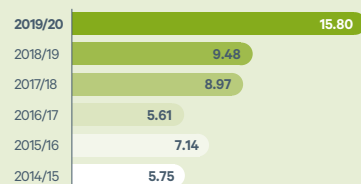
ENERGY USED IN WATER DELIVERY (Kwh/ML)



Rep 2019/20 target (530.00)

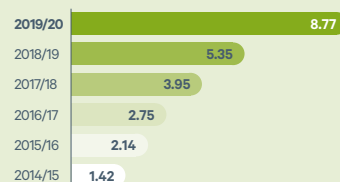


ENERGY FROM RENEWABLE SOURCES (WATER) (%)



Rep 2019/20 target (12.20)

ENERGY FROM RENEWABLE SOURCES (WASTEWATER) (%)



Rep 2019/20 target (7.80)

Catchment management

South West Water is proud to have exceeded our targets for catchment management during 2015-20.

Through our award-winning 'Upstream Thinking' programme we support farmers in accessing capital grant funding for improvements which help reduce the risk of pollution entering the region's rivers and lakes.

Since 2010, South West Water has worked to improve the water quality at 1,604 farms located upstream of water reservoirs and river abstractions.

We have also restored 10,655 acres, (4,312 hectares) of moorland, culm grass land and other semi-natural habitats in this period. This benefits raw water quality and biodiversity while reducing flood risk.

As part of our 2020-25 programme we remain committed to catchment management and plan to extend the programme across 80% of the catchments in which we operate, with particular expansion on Dartmoor and West Cornwall.

Our peatland restoration work on Exmoor has grown into a Defra match-funded project spanning Dartmoor and Bodmin Moor and is now two years through a three-year project.

Supporting a natural environment

The Government's 25-year Environment Plan sets out its ambition for a 'Green Future' and South West Water is committed to helping deliver this goal.

As such, we are pleased to have successfully completed the delivery of our National Environment Programme commitments for the 2015-20 period.

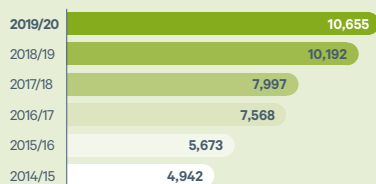
This includes our commitment for 18 environmental management plans at our Bournemouth Water sites.

We have also commenced work on the following:

- our Invasive Non-Native Species programme to help protect the region's biodiversity
- work on biodiversity net gain. We are already seeing tangible benefits – one such example is a tree planting programme delivered in conjunction with Devon County Council at our Exewater Depot
- a potential water transfer to Southern Water to help relieve the pressure on chalk rivers in their area.

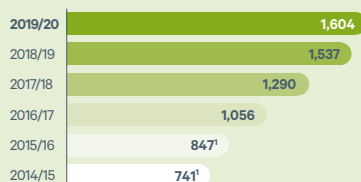


CATCHMENT MANAGEMENT (ACRES) (Nr)



Rep 2019/20 target (8,154)

CATCHMENT MANAGEMENT (FARMS) (Nr)

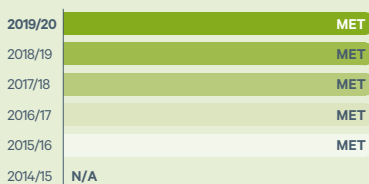


Rep 2019/20 target (1,400)

1 as amended in line with up to date information.



SUPPORTING A NATURAL ENVIRONMENT



Rep 2019/20 target (MET)



Tree-planting

South West Water made a positive start to achieving its goal to plant at least 100,000 trees over the next 10 years.

This was launched during National Tree Week (23 November to 1 December 2019) with a well-attended launch event at Burrator Reservoir in Devon.

In partnership with South West Lakes Trust and Westcountry Rivers Trust and with the support of contractors and volunteers from a wide range of organisations, the planting of 43,400 trees was achieved during the year at a variety of locations across the region.

OUR PEOPLE AND COMMUNITY

QUALITY OF LIFE



Outcomes



BENEFITING THE COMMUNITY

Our people strategy is designed to attract, retain and develop the right people with the right skills.

We are also committed to making a positive contribution to the communities we serve.

Current ODIs

We currently have two ODIs in this area in line with programmes to improve bathing and river water quality. In addition to our ODIs, we continue to report a number of additional KPIs within our 'community engagement scorecard,' including Health, Safety and Well-being, reflecting the importance placed on this area by the Board.

Consistency measures from 2020

Our 2020-25 ODIs will continue to consider bathing water quality as well as a new 'abstraction incentive mechanism' ODI in line with regulatory and customer feedback.

Risks

The following principal risks are considered to be relevant to this area.

- Non-compliance or occurrence of avoidable health and safety incident (Risk E)
- Tax compliance and contribution (Risk F)
- Difficulty in recruitment, retention and development of appropriate skills, which are required to deliver the company's strategy (Risk M)
- Non-delivery of regulatory outcomes and performance commitments (Risk N).

▶ See more about Strategic impact and risk rating on pages 118 to 126.

Accountability



Beyond the core services we provide, we're committed to playing a positive role in the communities we serve, including supporting and promoting health and well-being."

Jo Ecroyd,
Customer Service Director,
South West Water

Key

Financial (penalty or reward)	Financial (penalty only)	Reputational	Key Performance Indicator
Met	Not met (No financial penalty)	Not met	N/A

Benefiting THE COMMUNITY

Our people strategy is designed to attract, retain and develop the right people with the right skills. We are also committed to making a positive contribution to the communities we serve.

Bathing water quality

Devon and Cornwall's designated bathing waters again performed extremely well against EU water quality standards in 2019. Of the 151 assessments made by Defra, 149 (98.7%) bathing waters were rated as 'sufficient' or better while 125 (82.8%) achieved the criteria for 'excellent'. The latter represents the largest proportion of 'excellent' bathing waters in our region since the more stringent standard came into effect in 2015.

In addition to water company infrastructure, bathing water quality can be affected by many factors including rainwater running off roads and roofs, run-off from agricultural land, 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.

In 2019 the only bathing waters which failed to meet the 'sufficient' standard were Combe Martin and Illfracombe (Wildersmouth), both in Devon. Neither of these failures were connected with the performance of South West Water's assets.

Eleven bathing waters improved to 'excellent' whilst four (Plymouth Hoe East, Porthcurnick, Penzance and Croyde Bay) dropped from 'excellent' to 'good'. Again, this change in classification was unrelated to South West Water's asset performance.

Through our "Beachwise" partnership and other initiatives, 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.

River water quality

A vital part of protecting river water quality and ecosystems is ensuring that wastewater is treated to a high standard before it is returned to the environment.

During the 2015-20 period South West Water has continued to ensure compliance with new and tighter permits for our wastewater treatment works. We are pleased to report that we have met all our regulatory obligations within the National Environment Programme – resulting in 659km of river being improved in the period.

We have invested in a significant number of upgrades, particularly relating to the reduction of phosphorus levels in wastewater. This reduces the risk of eutrophication which can cause algal blooms.

Such upgrades have benefited river systems in areas including Honiton, Cullompton and Ottery St Mary as well as many other smaller sites across the region.

In the 2020-25 period we will continue to invest in our wastewater treatment works as new and tighter permits are applied.



NON COMPLIANT BATHING WATERS

2019	0
2018	0
2017	0
2016	0
2015	0

£+/- 2019 target (0)

“Devon and Cornwall's designated bathing waters again performed extremely well against EU water quality standards in 2019.”



RIVER WATER QUALITY IMPROVED

2019/20	659
2018/19	155 ¹
2017/18	155 ¹
2016/17	68
2015/16	62
2014/15	N/A

Rep 2019/20 target (650)

1 restated from 156 to reflect previous transposition error.

Sponsorship and charity donations

As part of our 2015-20 Business Plan South West Water is committed to spending a minimum of £80k on community sponsorship and charitable donations.

In 2019/20 we provided c.£200k worth of support for local charities and organisations.

Our strategy is to link our sponsorship and charity support to initiatives which have clear links with our core business activities, such as protecting the environment, biodiversity and health and well-being.

Over the past year this included sponsorships for:

- Devon Wildlife Trust
- South West Coast Path
- Cornwall Wildlife Trust
- Surf Life Saving GB
- Beach Schools South West
- Environment Plymouth
- Devon Youth Games Trust.

In addition to our ongoing support for WaterAid – the water industry charity – we also provided £46k of charitable donations, including to the following:

- Cornwall Air Ambulance Trust
- Devon Air Ambulance Trust
- Age UK Devon
- Age UK Cornwall & The Isles of Scilly
- The Devon & Cornwall Food Association (DCFA)
- RNLI.

Furthermore, South West Water's wastewater team continued to fund the BeachCare programme with Keep Britain Tidy, which organises and co-ordinates voluntary, community-based beach cleans across the South West peninsula.

Community engagement

South West Water's dedicated community team attended 24 high-footfall events including the Devon County and Royal Cornwall Shows, various regattas, food and drink and other community festivals and events. In the Bournemouth Water area, the team attended events including the Christchurch Carnival, offering advice and providing free water efficiency devices.

We also continue to take part in the Heritage Open Days initiative. In 2019 we opened eight operational water and wastewater sites to the public, hosting behind-the-scenes tours for a total of around 500 people.

Support for education

South West Water's community team directly engaged with more than 2,300 primary schoolchildren about the water cycle in classrooms and school assemblies, including through Scouts and Guides groups.

Through Bournemouth Water's partnership with Dorset-based educational charity Life Education Wessex, curriculum-based 'Waterwise' presentations and materials on the water cycle and water efficiency were delivered to 48 schools in the Bournemouth Water area, reaching more than 4,500 pupils.



COMMUNITY SCORECARD

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020 target	
RIDDOR incidence rate (nr) (calendar year)	7	7	6	9	13	10	0	⊖
Number of apprentices (nr)	61	85	102	105	242	327	100	⊕
Employee satisfaction (%)	74	74	69	69	77	80	80	⊕
Staff productivity (%)	75	77	75	76	85	85	80	⊕
Staff attendance levels (%)	96.4	97.1	96.4	97.0	96.7	96.1	97.0	⊖
Number of training days (nr)	5,707	4,634	7,667	4,230	9,563	11,559	4,000	⊕
Investors in People Standard (grade)	Silver	Silver	Silver	Silver	n/a	n/a	n/a	⊖
Number of volunteer days (nr)	151	192	189	81	88	108	200	⊖
Number of visitor numbers at recreational sites	1.79m	1.86m	1.96m	1.90m	2.03m	2.06m	2.10m	⊖
Sponsorship grants to local community (£'000)	74.7	89.0	74.4	98.0	83.3	80.8	80	⊕

OUR PEOPLE AND COMMUNITY CONTINUED

Benefiting the community continued

Employee volunteering

We actively encourage our staff to take part in employee volunteering opportunities including agreed community projects such as beach cleans and habitat restoration.

The number of Bournemouth Water and South West Water staff participating in volunteering schemes in the Bournemouth area has risen to 48 days in total.

Additionally, South West Water continues to support the international and industry charity WaterAid through various volunteering events and initiatives.

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. The Company continues to actively encourage staff based in Bournemouth to engage with employee volunteering through group volunteering events as well as allowing staff to organise their own events which enhance the community.

In 2020/21 South West Water aims to significantly increase employee engagement, enabled by new volunteering guidance and the Company-wide volunteering plan for 2020/21.

Apprenticeships

Our apprenticeship programme is a key part of ensuring we attract and develop high calibre staff.

Over the past two years 65 employees have completed apprenticeships and remain within the business.

We have 140 current apprentices, including 119 existing employees who are completing apprenticeships as part of their development and 21 employees who have joined the business as apprentices.

Support for our people

We are committed to engaging employees in our strategy and the important role they play in delivering it. We again carried out a Great Place to Work Best Workplace Survey™ in 2019 and were pleased to see our highest ever response rate of 80%. This achieved our 2020 target (of 80%) with a rise in employee engagement of 1%.

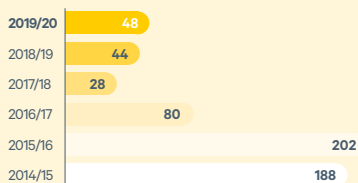
The 2019 Great Place to Work survey asked employees to comment on a wide range of topics including communication and involvement, job security, culture, diversity, recognition, strategy, talent management, teamwork and well-being, as well as work environment and processes.

We have made improvements on all the key focus areas of last year, which were communicating our strategy and direction, values and ethics and reward and demonstrating that living by our values is making an impact. For 2020/21 we have decided to focus on teamwork and collaboration, healthy working environment and line manager communication and involvement.

The South West Water Employee Engagement Forum has been running for two years in its current format and has become an established group of employees who meet regularly to create two-way communication between senior managers and employees.



CONTRIBUTION TO OUR COMMUNITY



Rep © 2019/20 target (175)



South West Water have signed up to 'Women in Water', an initiative supported by Water UK, which aims to encourage women into the water industry, support their development into more senior roles and ensure that their industry voices are heard."

This forum also helps to influence and support business changes, including being the employee voice in the recent pension consultations, and ensures that our employees are front and centre for all that we do.

Our 'Big Chats' continued throughout 2019/20, increasing in frequency from four to six updates in the year. It is now in its third year and allows all employees across the Company the opportunity to put any question direct to the leaders of the organisation. Discussions always start with a focus on health and safety and other topics have included: progress being made against our business plan and strategy; developments during COVID-19; and the sharing of the engagement results and progress on actions.

Health, safety and well-being

We are committed to the highest standards of health and safety. In recent years, across Pennon Group, this has included implementing a clear and structured long-term platform for all health and safety activity known as 'HomeSafe'.

HomeSafe is a wide-ranging behavioural change programme, drawing on best practice concepts and learning from a range of industries. It is being supported with a broad set of health and safety indicators to improve management information, insights and safety performance.

This broader data set allows for a better understanding of injury causes and allows us to benchmark against other companies across many sectors.

For high risk workers HomeSafe training has been facilitated through face-to-face delivery with positive feedback from participants. For lower risk workers a programme of e-learning modules has been successfully delivered.

As of 2019/20 92% of South West Water staff from all operational areas have completed HomeSafe training.

RIDDOR and LTIFR

In 2019/20 there were 10 RIDDOR¹ incidents in the South West Water area and zero RIDDOR incidents in the Bournemouth Water area.

The primary causes of such incidents in 2019/20 were slips, trips and falls and manual handling issues. Management actions are ongoing to improve performance.

A core aim of Homesafe is to improve our key safety measure known as LTIFR (lost time injury frequency rate²) from 1.5 recorded for 2018/19 to 0.5 by 2025. This would place South West Water in the top quartile of the industry. Following the implementation of the HomeSafe programme the LTIFR² across South West Water reduced to 1.27 in 2019/20. We are on track to meet our 2025 target as well as reducing the number of RIDDOR incidents.



Access, conservation and recreation

Our partnership with South West Lakes Trust (SWLT) 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. Around 72,000 people took part in organised recreation activities including sailing, windsurfing and kayaking.

A further 5,000 participants have learnt new skills at the sites through the Trust's heritage and environmental education programme.

Bournemouth Water

RIDDOR



Rep 2019 target (0)

1 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. RIDDOR puts duties on employers, the self-employed and people in control of work premises (the Responsible Person) to report certain serious workplace accidents, occupational diseases and specified dangerous occurrences (near misses).

2 A lost time injury is defined as any work-related injury that results in a person being unfit for work on any day beyond the day of the incident. Lost time injuries are expressed as a frequency rate (LTIFR) per 200,000 working hours.

VALUE AND EFFICIENCY





Outcomes



FAIR CHARGING FOR ALL

We optimise efficiency and make prudent investment decisions to ensure our charges are fair.

We aim to attract low-cost financing, maintain the confidence of our investors and generate additional returns from outperformance.

Current ODIs

Our customers rightly expect all customers to have affordable and fair bills and our current ODIs were designed to reflect this as well as water poverty initiatives.

Consistency measures from 2020

Building on our current ODIs, for 2020-25, based on feedback, a suite of four performance commitments around affordability and fair bills has been developed.

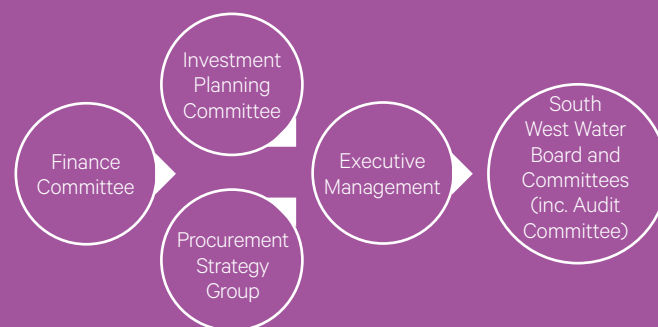
Risks

The following principal risks are considered to be relevant to this area.

- Change in government policy (Risk A)
- Regulatory reform (Risk B)
- Compliance with laws and regulations (Risk C)
- Maintaining sufficient finance and funding, within our debt covenants, to meet ongoing commitments (Risk D).
- Tax compliance and contribution (Risk F)
- Failure to pay all pension obligations as they fall due and increased costs to the Company should the deferred pension scheme deficit increase (Risk G)
- Non-recovery of customer debt and affordability (Risk H)
- Macro-economic risks impacting commodity and power prices (Risk I)
- Non-delivery of regulatory outcomes and performance commitments (Risk N)
- Failure or increased cost of capital projects/exposure to contract failures (Risk O).

▶ See more about Strategic impact and risk rating on pages 118 to 126.

Accountability



Efficient financing and strong governance are a key part of ensuring the delivery of value for money services which meet our customers' needs, whatever their personal circumstances."

Louise Rowe
Finance Director,
South West Water

Key

	Financial (penalty or reward)		Financial (penalty only)		Reputational		Key Performance Indicator
	Met		Not met (No financial penalty)		Not met		N/A

Fair charging and affordable **BILLS FOR ALL**

Our aim is to attract low-cost financing, maintain the confidence of our investors and generate additional returns from outperformance. We optimise efficiency and make prudent investment decisions to ensure our charges are fair.

Assistance for those struggling to pay

As a company we focus on delivering services as efficiently as possible to keep bills low for all our customers. We also understand and recognise that some customers may struggle to pay their bills so have developed an industry leading toolkit of support for customers with affordability or debt issues.

In the past year, we have continued to offer support to customers through one or more of our affordability measures. To date more than 35,000 customers have now been supported through one or more of the available schemes and over 25,500 customers are on a support tariff.

Our innovative WaterCare+ programme, introduced in 2007, continues to offer support to customers through a tariff check, water home audits and benefit entitlement checks. Each benefit check that we do realises on average an additional £51/week in income to the household.

Our team of WaterCare Advisors provide support for customers in vulnerable circumstances who would otherwise struggle to access the help available. The team visit customers in their homes and use our WaterCare App to quickly assess tariff eligibility and process applications. We have extended this service to our trusted partner organisations enabling them to provide direct support to their clients. Last year we undertook 981 home visits and processed 864 schemes, resulting in £266k of financial help provided; over the last two years this figure stands at £410k.

We also work in partnership with organisations such as Citizens Advice, Social Housing Providers and Carer Organisations to ensure that our schemes are promoted and easy for our customers to access. During the last five years, we've worked with 120 partner organisations and delivered training to 2,200 of their staff, as well as attending informal 'drop in' advice sessions and community events.

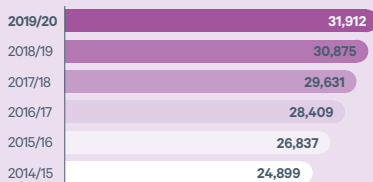
Our Freshstart fund helps customers who are new to debt and find themselves in vulnerable circumstances, through bereavement, long-term illness or loss of a job. Last year £196k of financial support was provided to customers, bringing the total amount to over £1.47m since it was introduced.

The above strategies have helped us to exceed our performance commitment for the 2015-20 regulatory period, with 31,912 customers now supported by our WaterCare+ and Restart initiatives.

We intend to improve this performance further over the next five-year period, and our Board has made a commitment to address water poverty by 2025. To support this, we will further develop our WaterCare+ scheme and eligibility for the WaterCare tariff. Following a successful pilot in North Devon we will also extend our 'Dual Billing' initiative, which allows unmeasured customers to see what their charges would be on a meter and gives them the choice to switch if they find they would be making a saving.



CUSTOMERS ASSISTED BY WATER POVERTY INITIATIVES



Rep 2019/20 target (23,210)



Domestic customers paying a metered bill

South West Water continues to have some of the highest levels of metering within the country.

83.3% of our customers now pay a bill based upon actual usage – just slightly below our target for this year.

South West Water’s policy gives household customers 24 months following a meter installation to decide whether they wish to remain on metered charges. The vast majority of customers do so.

We continue to promote metering, but it remains a voluntary process. Whilst the majority of our customers believe that it is the fairest way to charge for water and wastewater services, they are not in favour of compulsory metering.

Fair customer bills

This performance commitment relates to efficient debt management for the benefit of all customers in the Bournemouth Water area. It is designed to ensure 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.

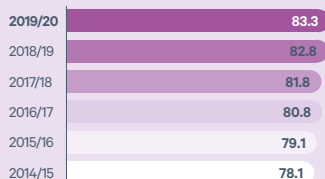
Meters installed

We achieved Bournemouth Water’s target to install 9,300 meters by 2020, which means that almost four times as many customers are now metered compared with the start of the 2015-20 period.

This was delivered by encouraging customers to apply as well as selective metering where an unmetered property is vacated.



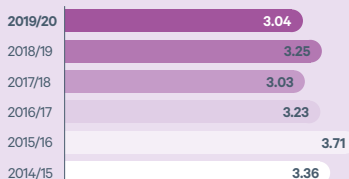
CUSTOMERS PAYING A METERED BILL (%)



£- 2019/20 target (84.7)



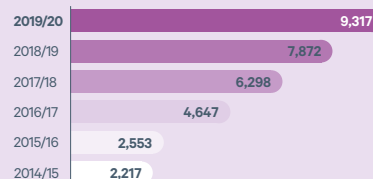
FAIR CUSTOMER BILLS (%)



Rep 2019/20 target (between 3 and 3.75)



METERS INSTALLED (Nr)



£- 2019/20 target (9,300)

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.

Highlights

South West Water delivered strong performance throughout the K6 period and again in 2019/20. SWW has delivered sector leading returns with outperformance in every area and in every year of the regulatory period.

Revenue

Total revenue¹ decreased by 1.9% to £571.6m reflecting tariff increases of 0.6%² and a decrease in total customer demand of 3.7% as a result of the wetter weather this year compared to the hot, dry summer of 2018.

An additional £4.4m of revenue was generated by c.8,000 new customer connections in the South West region and c.1,000 in the Bournemouth region.

C. 84% of South West Water's customers are now benefiting from a metered supply, with c.5,100 customers opting for a meter in 2019/20. 73.3% of customers in the Bournemouth Water region are metered with c.1,400 meters installed in the year.

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

Customer demand has been lower than anticipated; following several years of growth and positive weather impacts a demand reduction was expected and assumed within the 2019/20 tariffs. Actual revenue decreased due to the lower demand driven by the hotter weather, slightly offset by higher than expected developer activities and new connections.

This revenue was above the forecast level but less than the 6% regulatory tolerance levels and will result in a penalty of c.£0.2m through the Revenue Forecasting Incentive (RFI) which applies for the 2020-25 (K7) regulatory period. The RFI replaces the Wholesale Revenue Forecast Incentive Mechanism (WRFIM) used in the last regulatory period.

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.

Allowed revenue reconciliation³

	Bournemouth Water £m	Water South West Water £m	Wastewater South West Water £m
Final Determination revenue allowance (outturn prices)	36.4	205.2	274.9
Customer demand and profile	1.2	(1.9)	3.8
New connection numbers ⁴	(0.5)	1.0	1.7
Meter optants	0.0	0.1	0.1
Capitalised requisitions	(0.1)	0.1	0.8
Actual outturn (see table 2I)	37.0	204.5	281.3

³ The above table represents the allowed revenue as per the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM), which differs to the statutory revenue.

⁴ New connections impact both the water and wastewater revenue as well as revenue for connection and infrastructure charges.

Operating costs

Operating costs including depreciation for the year¹ were £329.4m (2018/19: £333.3m). The key movements in costs reflect:

- a non-recurrence of the additional costs incurred due to the hot, dry, summer in 2018/19
- increased expected credit losses due to the impact of COVID-19
- continued efficiencies.

On an underlying basis, overall efficiencies have offset inflation impacts of c.2.6%

Capital expenditure

Capital additions for the year were £161.0m¹ compared to £154.0m in 2018/19. The key areas of focus were:

- continued improvements to drinking water quality
- delivering environmental improvements (including a targeted strategy to reduce pollution incidents)
- continued investment in the network to drive leakage reductions.

Key large schemes and major areas of expenditure during the year included:

- £9.2m of expenditure to reduce leakage
- £8.8m to deliver improved river quality by reducing phosphorous in effluent
- £6.3m investment in wastewater pumping stations to provide resilience and support to treatment initiatives
- £5.9m spent on water distribution networks delivering further resilience to customers across the South West area
- £4.9m on College and £4.8m on Mayflower water treatment works
- £4.2m on pollution reduction initiatives to support pledges made in the business plan.

¹ On a statutory basis.

² Tariff increase reflects the net position post WRFIM pass back of £29.2m.



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 2019/20 we paid £28.5m in pension deficit recovery contributions, advancing the payment due in the next three years.

The key movements in expenditure are summarised below and include the impact on totex of the timing of capital schemes, where South West Water has advanced some activities from the K7 investment plan.

Wholesale expenditure

	Water £m	Wastewater £m
Final Determination totex allowance (2012/13 prices)	157.1	159.6
Key drivers:		
Capital efficiencies and cost savings	(7.4)	(10.8)
Timing of capital schemes	14.5	4.9
Non-recurring exceptional costs	–	–
Timings of pension deficit repair costs	6.6	8.0
Other efficiencies and cost savings	(24.2)	(20.5)
Actual totex (2012/13 prices)	146.6	141.2

OUR FINANCIAL PERFORMANCE CONTINUED

Retail

Total retail expenditure increased compared to the prior year mainly due to a non-underlying £2.8m provision for expected credit losses due to COVID-19. Excluding the provision, total retail expenditure decreased. This is due to a number of factors:

- continued improvements in collection processes, customer engagement and debt management
- synergies in corporate costs.

Driven by strong collections performance and working with customers to manage their debt, the expected credit loss charge as a percentage of revenue fell further this year. Net debts totalling £5.4m (2018/19: £10.4m) were written off against the provision during 2019/20, of which £1.9m related to personal and commercial bankruptcy and £0.8m related to our ReStart programme, a South West Water customer affordability initiative.

Whilst significant improvements were made in the year, further initiatives continue to ensure that progress continues to be made.

Customer service improvements, such as an enhanced web offering 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.

Retail household costs are below those allowed within the 2014 Final Determination. Costs have been reduced as a result of improved performance against the expected credit losses and the delivery of operational efficiencies.

Retail expenditure

Final Determination totex allowance (2012/13 prices)

Key drivers:

Debt management improvements	(6.0)
expected credit losses – COVID-19	2.8
Other cost movements	(0.5)

Actual totex (2012/13) prices

Retail household
£m

34.0

30.3

Net finance costs

Net finance costs for the appointed business have increased from the prior year to £73.0m, predominantly reflecting a higher average net debt balance as well as a higher interest on RPI linked debt. Aligned with the regulatory accounting guidelines, capitalised interest of £2.0m 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. The effective interest rate, based on the average net debt and net interest charge, is 3.3% (2018/19 3.5%). Interest cover for 2019/20 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 can be found on pages 127 to 128.

Dividends of £249.7m were paid to the parent undertaking, representing a base dividend of £60.5m, £59.3m of outperformance dividend based on cumulative performance for 2018/19, £0.1m of reduction relating to a prior year true up and £130.0m of special dividends. The dividend was calculated with reference to the projections in the Ofwat 2014 Final Determination and the assumptions for 2019/20 included within the 2015-20 Business Plan.

Tax 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 Company's corporate and social responsibilities in relation to its tax affairs
- operate appropriate tax risk governance processes to ensure that the 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 tax appetite 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
- not have any contact with tax havens unless it is necessary for the purposes of trading with those jurisdictions.

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 "Contributing to society through a responsive approach to tax" document which is available on the Pennon Group website.

Financial flows – retained value (12/13 prices)

	31 March 2020 £m	Average 2015-20 £m
Total shareholder return	154.105	159.220
Net dividend	210.260	138.220
Retained value	(56.155)	21.000



Corporation tax

The total appointee current tax charge for the year was £24.6m (2018/19: £28.0m). The Company made a net payment of £43.1m¹ of UK corporation tax in the year (2018/19: £11.9m).

The current corporation tax charge which is included within the tax charge, decreased from 2018/19. This is principally as a result of additional pension relief in the year.

The appointee current tax charge of £24.6m 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 appointee deferred tax charge of £37.3m for the year primarily relates to a change in the headline corporate tax rate. This was previously due to reduce to 17% with effect from 1 April 2020 but instead been held at 19%. This change was substantively enacted on 17 March 2020. The effect of the rate change is a change of £28.6m. The remaining £8.7m relates to timing difference between depreciation and capital allowances including adjustments in relation to prior years.

In respect of the overall appointed current tax charge of £24.6m, £16m has been assumed for Group relief (relating to the current year).

In relation to the taxable profits calculated for 2019/20, 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	15.4
Key variances:	
Impact prior years	(2.1)
Impact of change in taxation rates	(0.8)
Difference in profits	14.0
Depreciation and capital allowance impacts	(1.8)
Pension adjustments	(1.5)
Finance lease allowances	0.8
Other adjustments	0.6
Current tax charge	24.6

Current taxation

	Appointee £m
Profit before tax	167.4
Profit before tax multiplied by the standard rate of UK taxation (19%)	31.8
Capital allowances for the year	(22.0)
Depreciation	21.6
Pension adjustments	(3.2)
Finance lease allowances	(2.1)
Other adjustments (including prior year adjustments)	(1.5)
Current tax charge	24.6

¹ This is comprised of £33.7m of net payments to HMRC and £9.4m net payment from other Group companies.

OUR FINANCIAL PERFORMANCE CONTINUED

Liquidity and debt profile

The Company has a strong liquidity and funding position with £284.1m of cash and deposits at 31 March 2020 (including £225.9m of restricted funds representing deposits with lessors against lease obligations)¹. In addition the Company has £235.0m of undrawn facilities. Cash and current asset investments of £1.9m are held within 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 2020 the Company's loans and finance lease obligations totalled £2,591.3m. After the £284.1m held in cash deposits this results in net debt of £2,307.2m (an increase of £244.6m during the year).

The Company's debt has a maturity of up to 40 years with a weighted average maturity of 20.4 years. The Company has fixed, or put in place swaps to fix the interest rate on a substantial portion of existing debt in line with the policy to have at least 60% of funding fixed.

The Company also has £576.3m of index-linked debt with an average maturity of 29.3 years at an overall real rate of c.1.8%. As a result of these initiatives South West Water's nominal average effective interest rate for 2019/20 based on regulatory reporting requirements is 2.22% (Table 1E page 141).

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 2020 RCV equalled £3,573m with RPI at the year end of 2.6%. RCV at 31 March 2019 was £3,505m.

REGULATED GEARING

The regulated gearing of 64.6% (Group gearing of 63.6%) has been calculated as net debt as a proportion of RCV with Ofwat's notional regulated gearing for the regulatory period 2015-20 set at 62.5%.

POST TAX RETURN ON REGULATED EQUITY

The post tax return on regulated equity of 10.54% 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 19.76% is calculated as the total appointed dividend for the year of £249.7m on the regulated equity of £1,263.4m. Excluding the special dividend paid, the dividend yield for 2019/20 would be 9.47%. This compares to a dividend yield of 8.5% for 2018/19; this reflects the significant outperformance delivered by South West Water.

DIVIDEND COVER

The dividend is covered 0.42 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. Excluding the special dividend, dividend cover would be 0.88. The ratio is lower than the prior year due to a higher deferred tax charge due to the change in corporation tax rate.

INTEREST COVER

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover of 4.8 times for 2019/20 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 2.1 times for 2019/20. 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 (2015-20)

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 11.7% delivered in the year. 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 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 Regulatory Capital Value (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 a cumulative RPI over the K6 period of 2.8%. All other elements of RoRE are calculated consistently with Ofwat's approach.

In 2019/20, South West Water achieved a RoRE of 12.1% with a cumulative K6 position of 11.8%.

¹ On a statutory basis.

TOTEX OUTPERFORMANCE

South West Water has delivered on totex outperformance targets with £297m cumulative totex savings to 2019/20 (c.£64m delivered in the year) compared to the Final Determination allowances. 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 management targeting of efficient interventions
- Delivering Bournemouth Water synergies with the c.£27m of synergies targeted over K6 already secured.

OUTCOME DELIVERY INCENTIVES (ODIs)

South West Water has 40 performance commitments for the 2015-20 period including 23 which have a financial incentive i.e. the potential to earn rewards where higher levels of service are achieved, or incur penalties where targets have not been met. Bournemouth Water has 15 performance commitments, 10 of which have a financial incentive.

Our performance for 2019/20 has resulted in a net ODI reward of £2.0m, reflecting annual equivalent RoRE outperformance of 0.2% for the 2015-20 period. Across both South West Water and Bournemouth Water areas and throughout the five-year period, we have maintained good asset reliability and stable serviceability; 2019/20 marks the 23rd consecutive year that water restrictions have not been placed on our customers, and we have also increased the resilience of supplies for over 22,000 customers within the Bournemouth Water area.

The number of category 3 and 4 pollutions exceeded the target for the year which has resulted in a financial penalty for this ODI. Performance over the last quarter of 2019 for category 3 and 4 incidents was adversely affected by the sustained wet weather; rainfall over the South West peninsula was 50% above the long-term average for this period, during which one third of the total annual pollution incidents occurred. Reducing the number of pollution incidents is a priority and we have recently consulted on our Pollution Incident Reduction Plan, which sets out proposals on how we intend to drive sustained improvement to our performance and minimise our impact on the environment.

Across the 2015-20 regulatory period, we have outperformed against a number of our ODIs resulting in a cumulative net reward of £13.3m.

As one of only three companies in the 2015-20 period that had in-period ODIs, we are well placed for the 2020-25 period where a number of incentives will be applied in-period.

WATERSHARE MECHANISM

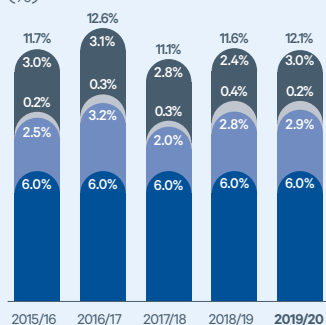
WaterShare has been central to our engagement with South West Water customers since 2015. WaterShare has always given our customers reassurance about the transparency and openness of our business, with our performance being reported to customers through the WaterShare scorecard and framework, overseen by an independent WaterShare panel. This review and scrutiny of performance and engagement with customers has also been undertaken by the independent Customer View Group at Bournemouth Water.

Our unique WaterShare mechanism allows us to share net benefits with customers; through focus groups and regular surveys we listen to customers' views about how they would like to receive the benefit. Options discussed with customers every year include:

- Re-investment in improving services for customers
- Reduction in customers' bills
- Deferral of benefits for the future.

In 2019/20 a further £20.3m of customer benefit has been realised through a combination of net totex savings, ODI outperformance and financing outperformance from movements in the market rates for new debt instruments. This brings the total customer benefit achieved in the 2015-20 regulatory period to £139m; £31m of which has already been reinvested to improve services, and the remaining £20m will be directly shared with customers under the WaterShare+ mechanism as part of our New Deal for 2020-25.

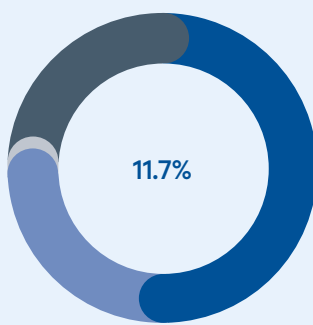
WATERSHARE RoRE (%)



- Financing¹
- ODIs
- Totex
- Base returns

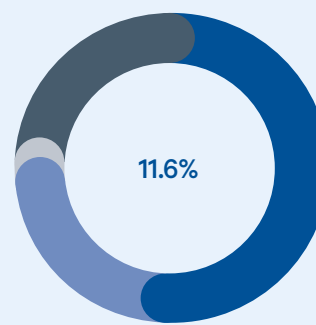
¹ Interest outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using the cumulative K6 forecast RPI of 2.8%; notional debt gearing of 62.5%, and the headline tax rate.

OFWAT RoRE 2019/20



- Base 5.8%
- Totex 2.9%
- ODIs 0.2%
- Financing² 2.8%

OFWAT RoRE 2015-20 CUMULATIVE



- Base 5.9%
- Totex 2.6%
- ODIs 0.3%
- Financing² 2.8%

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 2.6% for 2019/20 (2018/19: 3.1%, 2017/18: 3.7%, 2016/17: 2.1%, 2015/16: 1.1%); notional debt gearing of 62.5%, and the headline tax rate for the Company.

CONSISTENCY MEASURES

Consistency measures FROM 2020/21

In addition to reporting on our 2015-20 measures, we continue to report our performance in line with the common measures which will be used for the 2020-25 period. In this section we show performance in line with 2020-25 common commitments (as reported in table 3S on page 162).

Clean, safe and reliable supply of drinking water

1. SUPPLY INTERRUPTIONS

All supply interruptions > 3 hours

2. MAINS REPAIRS

Water mains burst per 1,000 kilometres of pipe

3. UNPLANNED OUTAGE

Proportion of unplanned outage of the total company production capacity

KEY

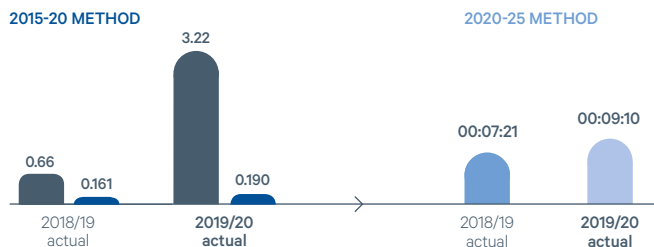
- BW (Bournemouth Water)
- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

Our 2020-25 method reports our combined South West Water (SWW) and Bournemouth (BW) position.

All measures are weighted averages from individual company performance reported in table 3S on page 162.

SUPPLY INTERRUPTIONS

Hours:mins:secs per property per year

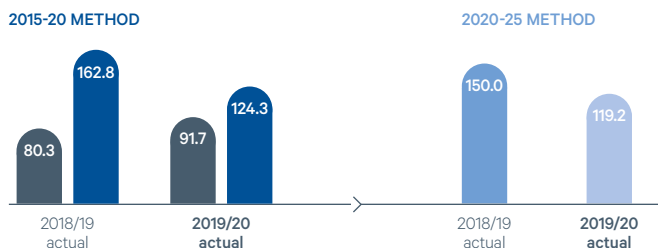


DEFINITIONS

- Supply interruptions occur when properties are without a continuous supply of water. We measure the duration of these interruptions, if they are greater than three hours, to calculate an average duration experienced across our customer base
- During 2015-20 South West Water was measured by hours per property and Bournemouth Water was measured in minutes per property. During 2020-25 the measurement will be consistently defined as hours:mins:secs per property
- Compliance is measured against our adherence to nine components for which we are fully compliant.

MAINS REPAIRS

Nr per 1,000km

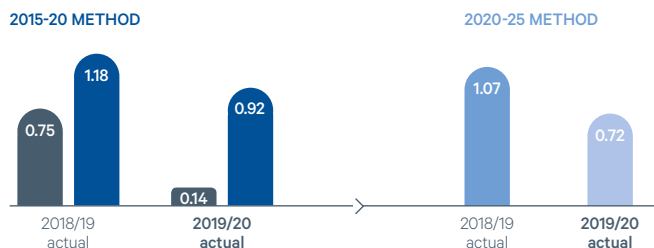


DEFINITIONS

- The existing methodology is the measure of the total number of bursts and leaks across the network per thousand kilometres of water mains length
- The new methodology is consistent with our previous definition of the measure and therefore we have been fully compliant since the introduction of the measure.

UNPLANNED OUTAGE

%



DEFINITIONS

- Unplanned outage is a new measure which aims to provide a means of assessing the health of our above ground water assets
- An unplanned outage is an unforeseen or unavoidable event, typically resulting from an asset failure, which would prevent a works from reaching its maximum production capacity if required
- Compliance is measured against our adherence to six components for which we are fully compliant.

Available and sufficient resources

1. LEAKAGE

2. PER CAPITA CONSUMPTION (PCC)

Per capita consumption

KEY

- BW (Bournemouth Water)
- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

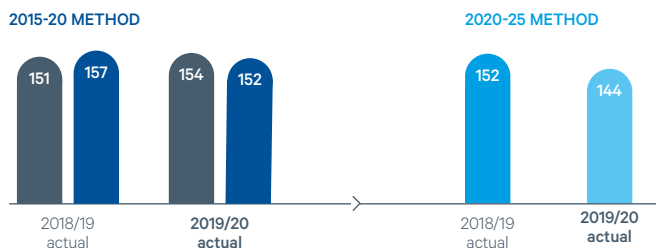
Our 2015-20 method reports our combined SWW and BW position.

PCC is reported as a weighted average figure whereas leakage is a combined total.

For both measures we have reported our three-year average performance under the 2020-25 method, in line with future requirements.

PER CAPITA CONSUMPTION (PCC)

Litres/person/day

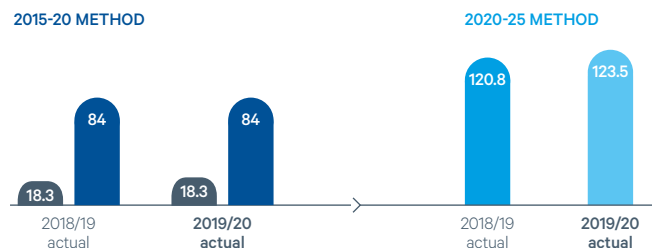


DEFINITIONS

- PCC measures our annual average consumption for our measured and unmeasured household customers. It is measured in litres per person per day
- The new methodology does not significantly change our estimation of PCC, but it does make use of a wider range of data to improve our understanding
- Compliance is measured against our adherence to four components for which we are now fully compliant.

LEAKAGE

MI/d



DEFINITIONS

- Annual leakage is defined as the sum of losses across our distribution network, reported as the average daily leakage for 12 months, expressed in mega-litres per day (MI/d)
- This measure differs to our old leakage reporting in a number of technical components. Most notably, how we interpret our night flows
- Compliance is measured against our adherence to 16 components for which we are now fully compliant.

LEAKAGE (NEW BASE)

This year saw the completion of the work needed to meet the new leakage consistency reporting approach. In previous years, estimates were used for some aspects of the calculation and forecast performance by using an assumed percentage uplift. This uplift started at c.16% in 2017/18 reducing to c.13% in 2019/20. Following completion of the methodology this year these estimates have been recalculated to enable historic leakage values to be reported on a like for like basis with 2019/20 actuals. This has led to a small increase in the estimates used in previous years. The restated results showed the impact of the consistency reporting was underestimated compared to that included in the PR19 business plan forecast with an uplift of c.16 to 18% over the years. The principal driver of the small increase in leakage is solely due to the application of the new consistency methodology to the level of operability in historic years.

The outcome of the higher historic leakage values has been to require a larger volume of leakage reduction during 2020-25 to meet the 15% leakage reduction target set in the Final Determination.

PER CAPITA CONSUMPTION (PCC) (NEW BASE)

We have completed the activity needed for compliance with the new PCC consistency approach in the 2019/20 financial year. Using this information we have also updated previous PCC estimates so the historic numbers are fully compliant. Using this information we have also updated previous PCC estimates so the historic numbers are fully compliant by updating those elements that were previously reported as red. This led to a decrease in PCC relating to plumbing losses offset by an increase relating to meter under registration impacts. These updates together with the updated leakage values were used in the overall water balance to update the historic PCC figures. The net effect is only a small change in the PCC values compared to the forecast made at PR19. For example, 2018/19 consistency based PCC is 152.1l/p/d compared to the original estimate of 153.9l/p/d. The PR19 target is set as a percentage reduction from the baseline and the small changes mean there is little impact on the original PR19 overall forecast and targets. This is particularly relevant when comparing the impact of the recalculation relative to the weather where overall PCC varied by approximately +/- 10l/p/d between 2017/18 and 2019/20 yet will have increased in 2020/21 to date resulting from the higher household demand due to the impact of the COVID-19 pandemic.

CONSISTENCY MEASURES CONTINUED

Responsive to customers

PRIORITY SERVICES FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES

Increasing the number of customers in vulnerable circumstances who are registered to receive support through priority services, and ensuring that those customers are contacted at least every two years to ensure they continue to receive the right support. This commitment is measured in two elements:

1. PRIORITY SERVICES REGISTER (PSR) REACH

Percentage of households registered to receive priority services

2. PRIORITY SERVICES REGISTER (PSR) DATA CHECKED

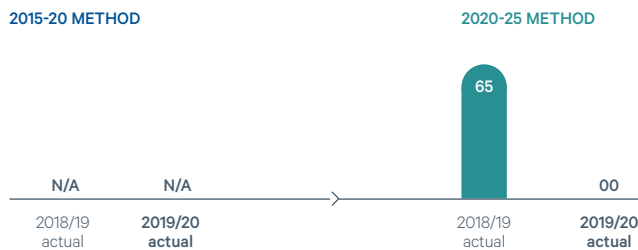
The second reported element of this measure further sub-divides to report against 'actual' and 'attempted' data checks. These are defined below.

KEY

- SWB (South West Water including Bournemouth Water)

PRIORITY SERVICES REGISTER (PSR) DATA CHECKED

%



DEFINITIONS

- Attempted contact is defined as the percentage of households on the PSR that the Company has attempted to contact over the last two years
- Actual contact is defined as the percentage of households on the PSR that the Company has actually contacted over the last two years. This element is an additional requirement which will be reported from 2020/21 in line with the new guidance.

PRIORITY SERVICES REGISTER (PSR) REACH

%



DEFINITIONS

- The percentage of households registered to receive priority services
- This is a new requirement for 2020-25.



Resilience

1. RISK OF SEVERE RESTRICTIONS IN A DROUGHT

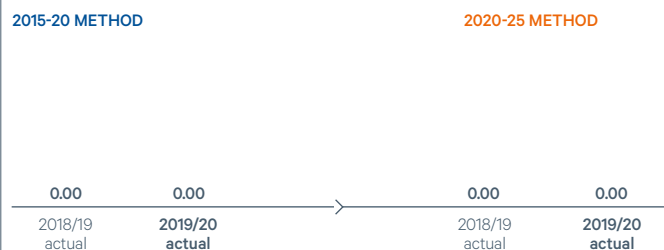
Percentage of the population the Company serves that would experience severe supply restrictions (for example, standpipes or rota cuts) in a 1 in 200 year drought.

KEY

- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

RISK OF SEVERE RESTRICTIONS IN A DROUGHT

%



DEFINITIONS

- This measures the percentage of the customer population at risk of experiencing severe water restrictions (i.e. requiring the use of standpipes)
- This is a new requirement for 2020-25 and our methodology is compliant with the new guidance.

Reliable wastewater services

1. INTERNAL SEWER FLOODING INCIDENTS

Internal sewer flooding incidents, including sewer flooding due to severe weather events

2. EXTERNAL SEWER FLOODING INCIDENTS

External sewer flooding incidents, including sewer flooding due to severe weather events

3. SEWER COLLAPSES

Proportion of unplanned outage of the total company production capacity

4. RISK OF SEWER FLOODING IN A STORM

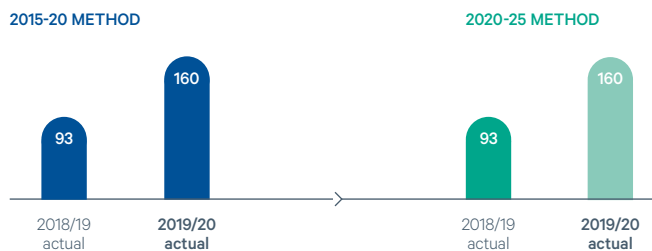
Proportion of unplanned outage of the total company production capacity

KEY

- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

INTERNAL SEWER FLOODING INCIDENTS

Nr

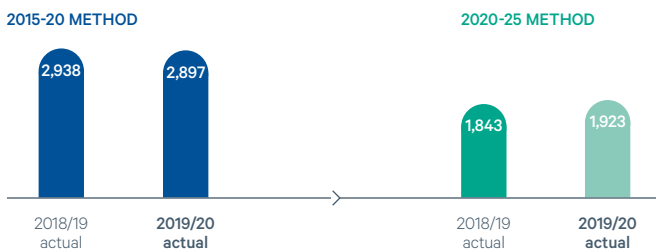


DEFINITIONS

- When there has been an escape of sewage caused by the public network, homes and businesses can be affected
- Internal sewer flooding means sewage has entered homes and businesses, affected living spaces, basements and cellars
- This measure reports the number of internal flooding incidents per year and we are requested to identify events caused by severe weather
- Compliance is measured against our adherence to six components for which we are fully compliant.

EXTERNAL SEWER FLOODING INCIDENTS

Nr

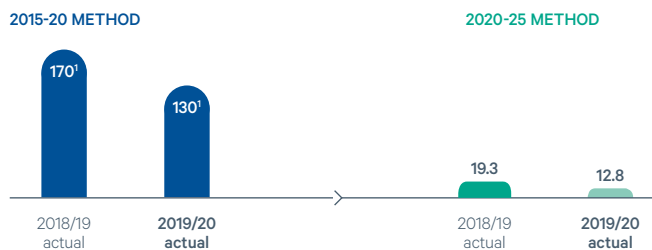


DEFINITIONS

- External sewer flooding means sewage has entered the grounds or gardens of a building normally used for residential, public, community or business purposes
- The measure shows a reduction from our previous definition of external sewer flooding as we previously counted flooded areas that could indirectly affect our customers (i.e. highways and open spaces). This is no longer required, hence reducing the number of incidents we report
- Compliance is measured against our adherence to six components for which we are fully compliant.

SEWER COLLAPSES

Nr per 1,000km



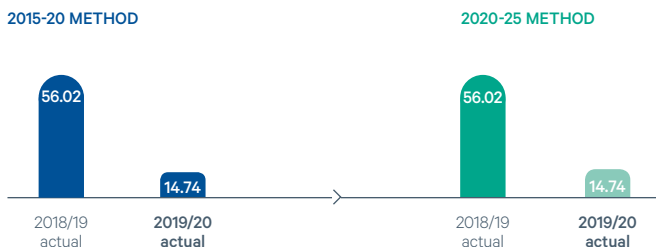
DEFINITIONS

- Sewers can collapse when they are old or damaged by tree roots. This causes the ground above the sewer to fall into the sewer, blocking the flow of sewage
- This differs from our previous definition of sewer collapses as the new methodology also includes incidents occurring on the transferred private sewer network
- Our methodology has been fully compliant since the introduction of this measure.

¹ Measurement is reported as the total number.

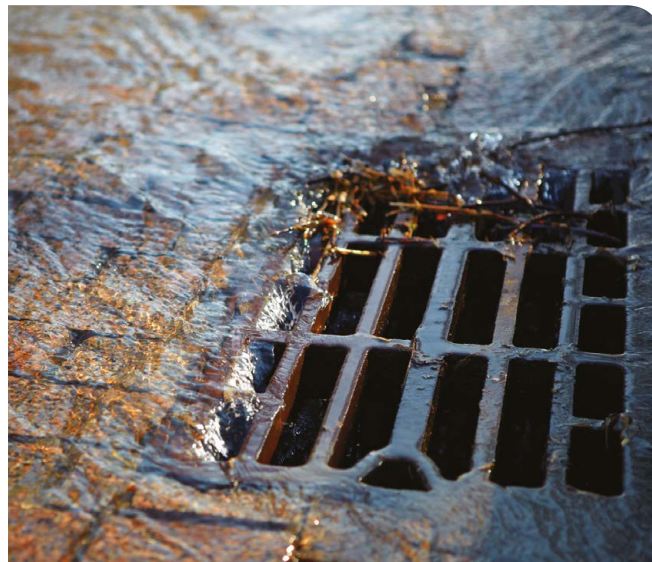
RISK OF SEWER FLOODING IN A STORM

%



DEFINITIONS

- Customers may be at risk of flooding in a severe storm event
- The measure reports the percentage of properties in our region that are at risk of a sewer flooding in a 1 in 50 year storm
- This is a new requirement for 2020-25 and our methodology is compliant with the new guidance published by Ofwat in April 2019.



Engaging in the EMERGING MARKETS

Since April 2017 non-household customers in England have been able to choose their retail water and wastewater service provider. The opening of the market was the most significant change in the water industry since privatisation. Its intention was to engender more choice for customers, stimulate competition and possibly drive efficiencies across the sector.

Business retail

ENGAGEMENT

To support market performance and retailer interactions, South West Water has dedicated structures in place. Outside of the wholesale field service delivery, our retail support functions comprise Service Desk, Account Management and Governance teams.

South West Water has a strong ethos of retailer advocacy and our goal is to ensure retailers and end customers receive excellent services.

Non-household end customers are a key part of our customer base and we aim to ensure our plans reflect their needs. The businesses we serve through our wholesale business are a key part of our engagement plans. Through our retailer surveys we have sought the views of our non-household retailers so that we can explore and understand perceptions of the market and how they would like South West Water to support them now and in the future.

CREDIT ARRANGEMENT

In addition to offering all credit options available under the Market Code, South West Water has also published its own alternative credit arrangement. Our Schedule 3 Alternative Credit Arrangement supports a wider group of retailers in meeting their credit requirements by providing a parent or other company guarantee.

MARKET PERFORMANCE

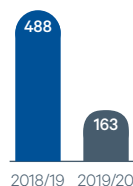
Our performance is reported monthly to the South West Water Executive, and is underpinned by the monitoring of in-flight processes and root cause analysis of any Service Level Agreement breach to highlight system and process improvement.

South West Water operates an internal market data review programme to improve data quality, targeting items which impact on customers or financial settlement.

This activity has underpinned an improvement in Market Performance Standards (MPS) and Operational Performance Standards (OPS) measures retrospectively since market opening.

A significant reduction in complaints has been realised this year, and no trading partner disputes have been raised with South West Water.

COMPLAINTS RECEIVED



METER READING SERVICES

South West Water has offered meter-reading services for non-household retailers in the market since 1 April 2017 and we are open to working with any non-household retailers operating in our wholesale supply areas.

To ensure 'arm's length' compliance, standard commercial terms have been established as part of a formal contract. These terms are offered to all interested trading parties, including the associated group retailer. We provide meter reading services on behalf of retailers representing 95% of market supply points.

Developer services

It is important that our customers understand their choices to provide water and sewerage services for their developer activities.

Building upon our existing website we have continued to develop our self-lay area to provide further information and guidance including process charts, design guidance, updated charging information along with details of contractor accreditation and details on approved materials and construction methods.

Our developer services literature provides clear advice on the choices open to developer customers when providing infrastructure; from employing an accredited self-lay provider (SLP) or ground worker to requesting South West Water to provide these services. This allows developers to make an informed choice at the beginning of their construction projects.

All our quotes provide clarification regarding which construction elements are contestable and non-contestable. We have also taken several other measures to ensure that we can support the preferred choices of our customers. These include:

- strengthening our internal teams to focus on all activities undertaken by others through either the self-lay market for water mains or formal adoption processes for sewers. Independence from our team who administer the work undertaken by South West Water is important to maintain competition compliance
- maintaining our dedicated email address for self-lay providers to contact us
- hosting engagement events with our developer customers to remind them of their choices
- holding regular review meetings with self-lay providers operating in our area.

The new and emerging markets offer opportunities for choice, efficiencies and benefits for our customers and the environment. We support the development of effective markets and have undertaken steps to further increase our engagement.

FUTURE PREPARATIONS

Over the past 18 months there has been a significant amount of change within the Developer Services world. This follows an industry-wide drive by the regulator, Ofwat, to improve services to developer customers.

These changes, each bringing a different challenge to the business, include:

- the introduction of the Developer Measure of Experience (D-MeX) from 1 April 2020. Our 2019/20 shadow year D-MeX score is 85.64 which places us 6th in the industry. In the 2020-25 reporting period, this performance would attract an outperformance payment.
- new charging arrangements building upon the change in 2018/19
- introduction of new Adoption Codes from 1 April 2020
- further development of the competition markets through self-lay and Non-Appointed Variations (NAV) provisions.

Focusing upon the highest priorities our developer customers, we are making a number of improvements including:

- the creation of a Developer Services help desk to make us more responsive to customers
- strengthening of the team to provide increased resilience and a more focused approach to different customer segments
- development of online facilities providing greater functionality and self-serve opportunities
- introduction of customer insight into the team to increase focus upon customer needs
- greater assurance in respect of competition compliance recognising the growth of the emerging Developer Services market through self-lay and NAV applications.

NEW APPOINTMENTS AND VARIATIONS (NAVS)

In line with our expectations, NAV activity grew during the year. The active NAV in our area expanded the number of sites it serves within Devon and Cornwall, while pre-development contacts received also increased.

We recognise the importance of treating NAVs as our customers and have responded to the anticipated expansion for both the number of NAVs in our region and sites supplied. Utilising best practice observed from the non-household retail market, we have continued to refine our internal processes to manage operational, account management and billing queries.

The Company supports the ongoing development of the market and recognises that further opportunities to level the playing field for full service NAVs may exist. We are therefore actively engaging with interested parties within the industry to explore potential solutions that will create value for stakeholders.

Water resources

South West Water has already begun to use market approaches which will help deliver sustainable water resource use in the future.

In 2018/19 we built our Bid Assessment Framework and in 2019/20 we used this to help develop a non-household water efficiency market platform. This will be rolled out in 2020, offering retailers a market for water efficiency opportunities.

We have also used our Bid Assessment Framework for new resources including an approach to South West Water for the purchase of a disused quarry and lake in Cornwall.

Our work on a regional water trading platform continued in the year with the development of a West Country Water Resources Group hosting website and the collation of information on all water-users and abstractors in the region.

We will look to develop this further with the aim of ensuring the best use of water is made within the South West Water region and beyond.

Bioresources

We are committed to actively participating in the new bioresources market from 2020.

Over the last year, as part of our ongoing preparations, we have:

- continued sludge incineration trials with a third party services provider (MVV Devonport), so the Environment Agency can consider permit implications for the incinerator
- re-tendered our sludge haulage and biosolids recycling operations, which are already delivered by third parties
- updated our bioresources market information on our dedicated web pages
- completed the installation of improved sludge measurement equipment to facilitate market approaches
- continued to provide access, via our web pages, to a bioresources mailbox to enable interested parties to contact us about opportunities
- responded to contacts using our internal contact tracking system, which have included the following topics:
 - farmers interested in bioresources use on land
 - commercial companies offering services.

As highlighted in our Business Plan we will focus on maintenance of our bioresources assets for 2020-25.

During this time, we will be proactively approaching the bioresources market to understand potential market solutions, support future bioresources service delivery, and identify business opportunities to guide our future approach to enhancement of investment needs.

Established FRAMEWORK

Introduction

During the period covered by this Annual Performance report, South West Water was operating within a larger corporate group context. Pennon Group plc owned Viridor as well as South West Water during the period and the governance framework around this wider group context included a strong focus on ensuring the independence of South West Water from the remainder of the group.

Pennon Group sold Viridor on 8 July 2020. From the date of the sale, the structure of the Pennon Group and South West Water governance framework changed significantly with the continuing group focused solely on South West Water and Pennon Water Services. Sir John Parker, the Chairman of the Pennon and South West Water, the CEO of the Group and managing Director of South West Water will not be seeking re-election on 31 July 2020. In addition, Lord Matthew Taylor and Martin Hagen who have both served on the Board for South West Water for 10 years will also not seek re-election.

Noting the refocus of the Group on South West Water and Pennon Water Services, the Board's internal succession plan has been enacted with the appointment of Susan Davy to CEO and Gill Rider to the role of Chair from the date of the Pennon Group AGM on 31 July 2020. Pennon and South West Water Boards will have consistent Chair and Non-Executive Director memberships in future given the revised focus of the Group.

From the date of the Pennon Group 2020 AGM the other non-executive Directors of the South West Water will be Neil Cooper (as Senior Independent Director of both South West Water and Pennon), Iain Evans (also a non-executive Director of Pennon), Claire Ighodaro (also a non-executive Director of Pennon) and Jon Butterworth (also a non-executive Director of Pennon). Louise Rowe continues as finance Director of South West Water. Paul Boote will be the Finance Director of Pennon but will not be a South Water Director.

The governance framework for the Group will continue to ensure the full independence of the Board of South West Water from any competing interests within Pennon Group. South West Water will continue to be operated as a standalone Company with its own independent Board separate from the remainder of the Group. The new single focus and activity of the Group is now the provision of water to customers and removal of wastewater. Our strict governance around Board leadership and effectiveness, Director independence, with robust and transparent monitoring of those matters, ensures that South West Water will continue to operate within a robust ringfence directed towards its interests alone. The new Chair and all of the Non-Executive Directors are considered to have the appropriate skills and experience in their respective disciplines and personality to bring independent and objective judgement to South West Water Board's deliberations. Rigorous annual Board evaluations are carried out, there is a majority of Independent Directors on the Audit, Remuneration and Nomination Committees, and the Board is advised and guided by the Company Secretary on ensuring strict compliance with all its governance and Board effectiveness requirements including around conflicts of interest and division of responsibilities.

Through the period covered by this Report, South West Water remained 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) was during the year also the Chairman of Pennon Group.

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

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

Pennon Group plc has a Senior Independent Director (Gill Rider) available to shareholders and other stakeholders and a Non-Executive Director Neil Cooper, both of whom are also Non-Executive Directors of South West Water.

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.

In January 2019, Ofwat issued revised 'Board leadership, transparency and governance' principles, which apply from April 2019.

The principles consolidate and update the previous Ofwat principles and it is a licence obligation for South West Water and other water companies to meet these principles. They operate in parallel with the Companies Act 2006.

The objectives and provisions covered by these principles are:

- Company purpose, values and culture
- Operating as a standalone regulated company
- Board leadership and transparency
- Board structure and effectiveness.

We have laid out on pages 104 to 106 how we complied with these principles and any additional steps we have taken in the year to comply.

Further information on the approach to Group and South West Water governance is included in pages 54 to 72 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 60 and 73.

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

Board independence

All of the Non-Executive Directors were considered by the Board to be independent throughout the year. None of the relationships or circumstances set out in provision 10 of the UK Corporate Governance Code (the UK Code) applied to the Non-Executive Directors listed on page 114.

Notwithstanding their directorship of Pennon Group plc, Neil Cooper and Gill Rider are considered to be independent in character and judgement given that they were 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.

Sir John Parker was considered to be independent at the time of his appointment in accordance with provision 9 of the UK Code. At that time, the Board concluded that none of the conditions set out in provision 10 of the UK Code applied to Sir John; although he was appointed to the position 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 operation of the Group's governance framework is underpinned by the dual South West Water/Pennon appointments held by Sir John and other Non-Executive Directors.

All Directors are subject to re-election each year in accordance with provision 18 of the UK Code. At year end, the Board had 25% female representation, which is less than its 33% female representation target. Further details of gender diversity within the Company are described on page 62.

All of the Non-Executive Directors were during the year considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 62 to 64 and the experience chart on page 70 demonstrate collectively a broad range of business, financial and other relevant experience.

Lord Matthew Taylor, Martin Hagen, and Jon Butterworth were during the year South West Water Non-Executive Directors. These Directors provided an independent voice and channel for concerns of customers and other stakeholders to be raised if required.

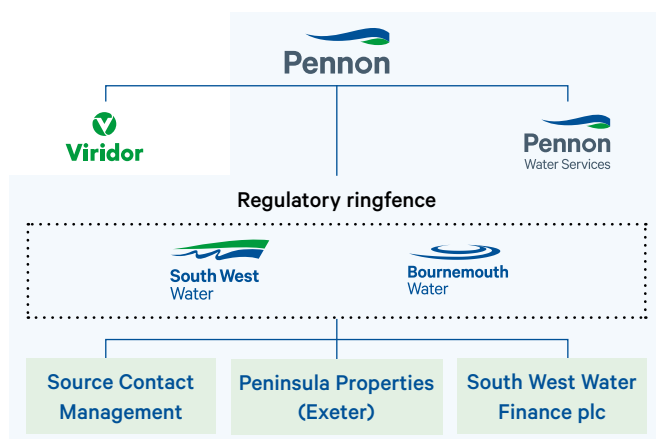
Neil Cooper and Gill Rider were likewise considered to be independent in character and judgement. They were also appointed to the South West Water Board in order to facilitate the Pennon Group's revised governance framework, rather than to represent the interests of the shareholder.

Neil Cooper and Gill Rider are also Non-Executive Directors of our parent entity, Pennon Group plc. In addition, Lord Matthew Taylor and Martin Hagen have both served in excess of nine years on the Board, having both been appointed in 2010. In light of the above circumstances and the possible factors that could impair the individual Directors' independence, the Board undertook a particularly rigorous review of their performance and independence. Furthermore, as part of the external Board evaluation exercise, a review was undertaken of the performance of each individual Director. Following these reviews, the Board can confirm that, based on their participation at meetings and their contribution outside of the boardroom, each of the Non-Executive Directors continued to perform effectively and demonstrate commitment to their roles throughout the year. It is intended that both Lord Matthew Taylor and Martin Hagen will step down from the Board on conclusion of the Annual General Meeting in July 2020.

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 100 company, whose principal significant trading subsidiaries during the year 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 17, page 151). It is also a structure which shows Viridor as part of the group. As of 8 July 2020, Viridor was no longer part of the group.



Continuing Group visualised in blue box above.

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. A Customer View Group continued to operate in the Bournemouth Water area for 2019/20 but will be merged with the new WaterShare+ customer panel from 2020/21. (see pages 107 to 109).

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, raising borrowings for South West Water.

Viridor

During the year Viridor remained part of the group although has since been sold to a third party. Viridor provides waste management services to UK residential and commercial customers including recycling, composting and energy recovery facilities. Pennon Group has now sold Viridor to a third party. The sale completed on 8 July 2020.

Pennon Water Services

Pennon Water Services provides retail services to non-household customers. 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 during the year comprised the Chairman (a Non-Executive Director), two Executive Directors, a Senior Independent Director (a Non-Executive Director) and four further Independent Non-Executive Directors.

Since May 2019, Chris Loughlin, the Pennon Group Chief Executive, has assumed the role of South West Water Managing Director.

In addition Susan Davy, Pennon Group Chief Financial Officer, and Iain Evans, who is a Pennon Group Non-Executive Director, attend the South West Water Board. Claire Ighodara was appointed as a Director of Pennon Group in September 2019, and she also now attends the South West Water Board¹.

At all times during the year, the Board considered 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. The skills of the South West Water Board as constituted during the year are summarised on page 70.

All of the Non-Executive Directors were considered to have the appropriate skills and experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 62 to 64 and the experience they hold (see chart on page 70) demonstrate collectively a broad range of industry, financial and other relevant experience.

¹ Following Pennon's sale of Viridor in July 2020, the structure of the South West Water and Pennon Group plc boards changed significantly. Details of the changes can be found on page 60.

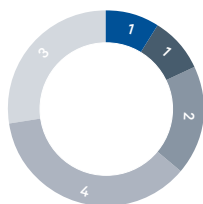
Trusted LEADERS

SOUTH WEST WATER NON-EXECUTIVE DIRECTORS →

COMMITTEE MEMBERSHIP KEY

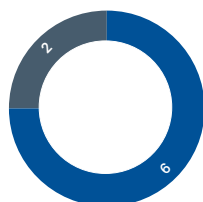
- Chairman of the Committee
- Member of the Committee
- A** Audit Committee
- R** Remuneration Committee
- N** Nomination Committee
- S** Sustainability Committee

BOARD COMPOSITION AT 31 MARCH 2020



- Chairman (Non-Executive) 1
- Senior-Independent Director 1
- Executive Directors 2
- Other Non-Executive Directors 4
- Other permanent attendees 3

BOARD DIVERSITY AT 31 MARCH 2020*



- Male 6
- Female 2

THE BOARD'S EXPERIENCE AT 31 MARCH 2020*



* Includes Board members only. Certain Board members are recognised as having more than one category of experience.



N

Sir John Parker
Chairman (Non-Executive)

APPOINTMENT

Sir John was appointed to the South West Water Board on 31 July 2015. He became Chairman of South West Water on 1 August 2015 and is also Chairman of Pennon Group plc.

He is also chairman of the Nomination Committee.

Sir John will step down from South West Water and not seek re-election at the AGM on 31 July 2020.

SKILLS AND EXPERIENCE

Sir John is a highly experienced and independent chairman and brings a wealth of leadership experience across a range of industries. He is widely recognised for his policy work on the value of diversity in the boardroom, having chaired the Government's review on Ethnic Diversity on UK Boards in 2017. Prior to that, he was a member of the Davies Committee – Women on Boards.

He has chaired six FTSE 100 companies and was previously the chairman of Anglo American plc and National Grid plc, senior non-executive director and chair of the Court of the Bank of England, Senior Non-Executive Director of the Cabinet Office Board, deputy chairman of DP World, joint chair of Mondi and chair of BVT and P&O plc. He was also president of the Royal Academy of Engineering from 2011 to 2014 and is a Visiting Fellow of the University of Oxford.

EXTERNAL APPOINTMENTS

Sir John is the chairman of construction and engineering company Laing O'Rourke. He is also a Non-Executive Director of Carnival Corporation and is a senior adviser to Spencer Stuart.



S A N R

Gill Rider
Non-Executive Director

APPOINTMENT

Gill was appointed to the Board on 1 April 2016, having been appointed to the Pennon Group plc board on 1 September 2012.

She is chairman of the Remuneration Committee and a member of the Audit, Nomination and Sustainability Committees.

Gill will take over as Chair following the resignation of Sir John Parker on 31 July 2020.

SKILLS AND EXPERIENCE

Gill has a wealth of experience in leadership, governance and remuneration across a broad range of sectors, including professional services, education, not for profit and government.

Formerly, she was head of the Civil Service Capability Group in the Cabinet Office, reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture LLP, culminating in the post of chief leadership officer for the global firm. She was previously president of the Chartered Institute of Personnel and Development and chair of the council of the University of Southampton.

As chair of the Remuneration Committee, Gill is helping to steer the approach on executive remuneration, ensuring it is aligned with the strategy.

EXTERNAL APPOINTMENTS

Gill is currently a non-executive director of Intertek Group plc where she is also chair of their remuneration committee. In addition to her PLC roles, Gill is the President of the Marine Biological Association.



S A N

Lord Matthew Taylor
Senior Independent Director (Non-Executive)

APPOINTMENT

Matthew was appointed to the South West Water Board on 1 March 2010 and appointed as Senior Independent Director on 28 March 2018.

Matthew will step down from South West Water and not seek re-election at the AGM on 31 July 2020.

SKILLS AND EXPERIENCE

Matthew has advised successive governments on planning policies for sustainable communities for over a decade. He is an experienced Non-Executive Director, and was previously MP for Truro and St Austell for 23 years from 1987, until he stood down at the 2010 general election.

EXTERNAL APPOINTMENTS

Matthew runs his own planning consultancy, Taylor & Garner Ltd. He also chairs the Carclaze Garden Village Strategic Partnership Board and is Chair and Non-Executive Director of Bridgehall Real Estate Limited and Kensa Heat Pumps Limited.

Matthew is an Honorary Member of the RTPI, Visiting Professor of Planning at Plymouth University and Senior Visiting Fellow at Cambridge University's School of Planning.



A N R

Neil Cooper

Non-Executive Director

APPOINTMENT

Neil was appointed to the Board on 1 April 2016, having joined the Pennon Group plc Board on 1 September 2014.

He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

SKILLS AND EXPERIENCE

Neil brings to the Board extensive experience in a wide variety of corporate and financial matters. He is currently the chief financial officer of Currencies Direct, a foreign exchange broker and international payment provider. Previously, he was group finance director of Barratt Developments plc and, before that, group finance director of William Hill plc and Bovis Homes plc.

He also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.

As chairman of the Audit Committee, Neil has been influential in directing the approach on a number of significant matters, including internal control, governance and financial reporting.

EXTERNAL APPOINTMENTS

Executive Director, Currencies Direct.



A N R

Martin Hagen

Non-Executive Director

APPOINTMENT

Martin was appointed to the Board on 1 September 2010.

SKILLS AND EXPERIENCE

Martin was previously Deputy Chairman of the Financial Conduct Authority's Regulatory Decisions Committee, a board member and President of the Institute of Chartered Accountants in England and Wales and senior partner of Deloitte's West of England practice.

He was also an Independent Member of the Audit and Risk Assurance Committee of the Department for Work and Pensions and a Governor of the Audit Committee Chair of UWE Bristol.

EXTERNAL APPOINTMENTS

Martin is a Board member and Chair of the Audit Committee of Companies House.



S

Jon Butterworth MBE

Non-Executive Director

APPOINTMENT

Jon was appointed to the Board on 28 September 2017.

He is a member of the Sustainability Committee and is also independent scrutineer of health & safety processes across the Group (including within South West Water) to help ensure that these are robust and effective.

SKILLS AND EXPERIENCE

Jon has a distinguished track record within the utility industry, having started his career over 40 years ago in British Gas as an apprentice technician and subsequently progressing through a variety of senior leadership roles including National Operations Director and Global Director of Safety, Sustainability & Resilience. Jon is currently Chief Operating Officer of a non-regulated business within National Grid plc.

Jon's utility background provides him with an immense depth of knowledge and experience of the importance of maintaining a balance between profit and safety and constructively challenges the Board and management to constantly raise the bar in this area.

Jon is passionate about corporate and social responsibility and was awarded an MBE in 2009 for services to Britain's Gas Industry. He was instrumental in the Government's Rehabilitation of Young Offenders programme and has dedicated over 10 years to Special Olympics Great Britain (SOGB).

EXTERNAL APPOINTMENTS

Jon is a Fellow of the Institute of Directors and is also Chairman of CORGI, North Sea Link, NEMO Link, BritNed Netherlands, Ex-Ambassador of the HM Young Offenders Programme and a Trustee of the National Gas Museums Trust.



S

Iain Evans

Pennon Group
Non-Executive Director

APPOINTMENT

Appointed to the Board 31 July 2020 having previously been in attendance.

SKILLS AND EXPERIENCE

Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983 he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries. Iain was appointed as a Non-Executive Director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five as Chairman.

EXTERNAL APPOINTMENTS

Iain is non-executive director of Bologna Topco Limited and also acts as an independent corporate strategy consultant.

Trusted leaders continued

**SOUTH WEST WATER
NON-EXECUTIVE
DIRECTORS CONTINUED**



Claire Ighodaro

Pennon Group
Non-Executive Director

APPOINTMENT

Appointed to the Board 31 July 2020 having previously been in attendance.

SKILLS AND EXPERIENCE

Claire has held a number of senior roles and directorships of UK and international organisations and has extensive board experience of serving on audit and governance committees. In May 2019, she stepped down from Bank of America's Merrill Lynch International Board having served the maximum term.

Claire is a past president of CIMA and was the first woman to lead this organisation. She spent most of her executive career with BT plc and has also held non-executive directorships across a diverse portfolio including audit committee chair of Lloyd's of London, The Open University and various UK public bodies including UK Trade & Investment and the British Council.

She was awarded a CBE in 2008 for services to business. A board level mentor, with Savile Group, from 2009-14, she has also helped executives transitioning into non-executive roles.

EXTERNAL APPOINTMENTS

Claire is currently non-executive chairman of Axa XL UK entities and non-executive director of Flood Re, where she is also chair of the audit committee.

EXECUTIVE DIRECTORS →



Chris Loughlin

Managing Director (and
Pennon Group CEO)

APPOINTMENT

Chris was appointed to the Board on 1 August 2006 as Chief Executive of South West Water. He became the Pennon Group Chief Executive Officer on 1 January 2016.

Chris is Chairman of the Pennon Executive and a member of the Sustainability Committee. Chris also serves as Managing Director of South West Water.

Chris will step down from South West Water and not seek re-election at the AGM on 31 July 2020.

SKILLS AND EXPERIENCE

Chris has extensive experience of the regulated business environment and the management of major engineering and infrastructure services. He started his career as a chartered engineer working in both the consulting and contracting sectors and, after holding a number of senior positions with British Nuclear Fuels plc, joined its board as an Executive Director. Prior to joining South West Water, he was chief operating officer with Lloyds Register and before that, Executive Chairman of Magnox Electric plc. He was also a senior diplomat in the British Embassy, Tokyo.

Chris has a comprehensive understanding of the water industry. He was previously a board member (and, for a period, president) of the Institute of Water, and between April 2008 and March 2012 was Chairman of Water UK.

An enthusiastic advocate of local business, Chris was previously the vice-chairman of the Cornwall Local Enterprise Partnership.

EXTERNAL APPOINTMENTS

Chris is currently Chairman of British Water and of Reall Limited, a director of Water UK, and a director of Mears Group plc.



Louise Rowe

Finance Director
(Executive)

APPOINTMENT

Louise was appointed South West Water Finance Director on 1 February 2015.

SKILLS AND EXPERIENCE

Louise has been with South West Water for over ten years, holding a range of managerial roles in the Finance Directorate prior to her appointment as Finance Director.

She is a physics graduate and qualified as a chartered accountant with KPMG.

EXTERNAL APPOINTMENTS

Louise is a member of the Water UK Finance Directors' Forum and up until 23 May 2020 a Non-Executive Director and chair of the Audit and Assurance Committee of the Cornwall and Isles of Scilly Local Enterprise Partnership.



Susan Davy

Pennon Group
Chief Financial Officer

APPOINTMENT

Appointed to the Board 31 July 2020 having previously been in attendance.

SKILLS AND EXPERIENCE

Susan is a graduate qualified chartered accountant with 20 years' experience in the utility sector. Prior to her current appointment, Susan was Finance Director at South West Water between 2007 and 2015, during which time she was responsible for the Company's Business Plan to 2020. She has also held a number of other senior finance roles in the water sector, including as Head of Regulation and Head of Finance (Wastewater) at Yorkshire Water.

Susan's knowledge of the industry coupled with her financial and regulatory expertise has supported the development of Pennon's strategy and her input has been invaluable to the Board in its deliberations.

EXTERNAL APPOINTMENTS

Susan is a Non-Executive Director and chair of the audit committee of Restore plc and is also chair of the CBI South West council and a member of the A4S (Accounting for Sustainability) CFO leadership network.

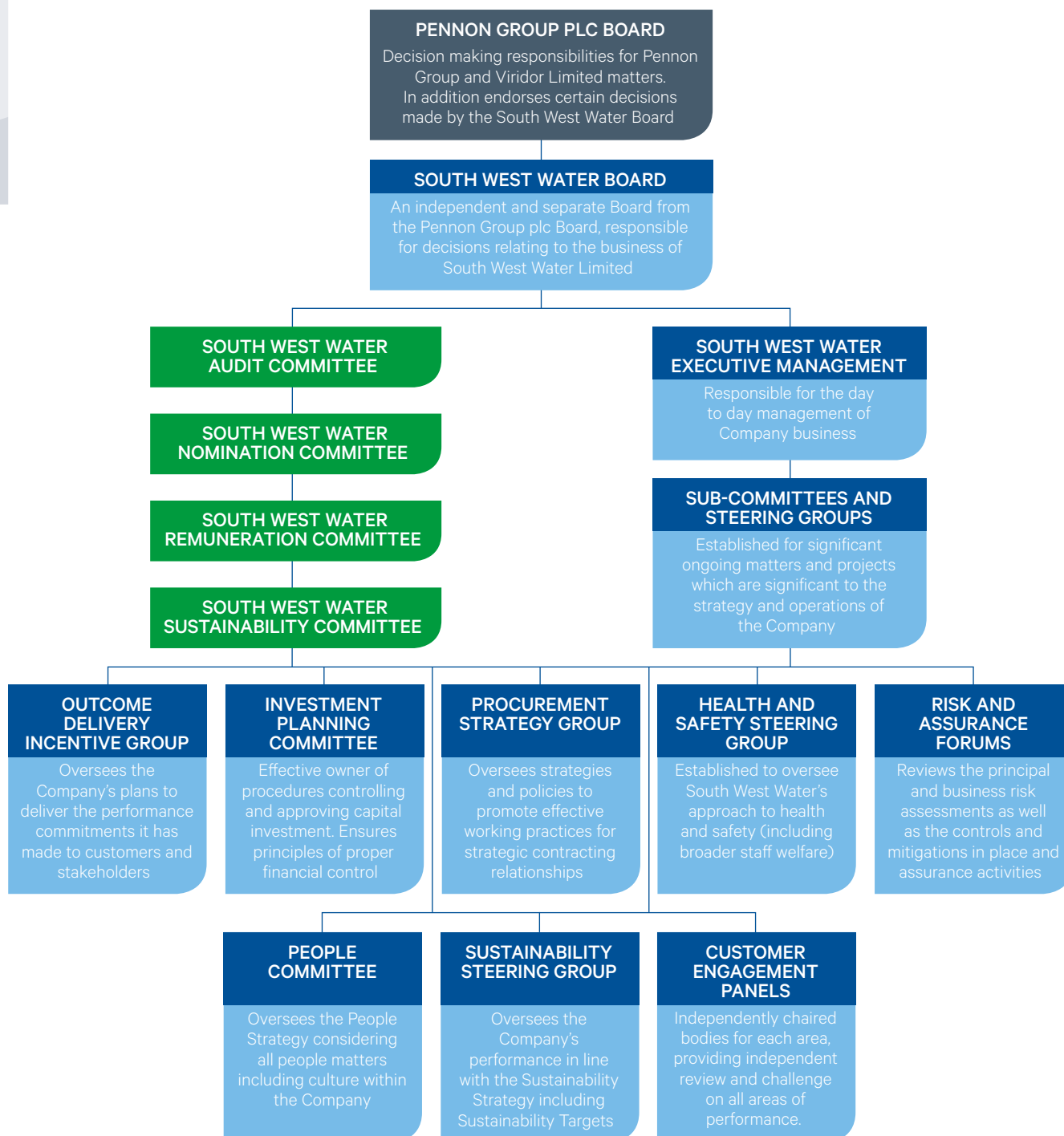
COMMITTEE MEMBERSHIP KEY

●	R
Chairman of the Committee	Remuneration Committee
○	N
Member of the Committee	Nomination Committee
A	S
Audit Committee	Sustainability Committee

The Board and its governance framework

BOARD STRUCTURE SUMMARY

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



Key Board statements

REQUIREMENT	COMPLIANCE STATEMENT	WHERE TO READ MORE
Remuneration	During 2019/20, the Committee conducted a comprehensive review of the remuneration policy. This has helped us to determine that the policy remains 'fit for purpose' and continues to align executive remuneration with the Company's strategic direction and long-term sustainable success. Our review focused on the recent changes to the UK Corporate Governance Code and on Ofwat's vision for water companies and regulatory framework going forward.	▶ See more on page 83.
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. The methodology for identification and mitigation of risk is similar at individual business unit and corporate levels.	▶ See more on page 98.
Risk and compliance statement	<p>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.</p> <p>In line with Ofwat's Regulatory Reporting requirements, the risk and compliance statement details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders.</p>	▶ See more on page 109.
Principal risks	South West Water as part of the Pennon Group operates a mature, integrated risk management framework which is embedded into our culture and ways of working at all levels of the business. This framework forms a key part of our governance structures to ensure that there is robust review, challenge and assurance over the management of our key risks and opportunities.	▶ See more on page 118.

Pennon Group Plc Board

The Pennon Group Board's responsibilities include overall leadership of the 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 South West Water Board continues to operate as a separate independent board in accordance with its schedule of matters reserved (see below) to ensure compliance with Ofwat's 2019 Board leadership, transparency and governance principles.

The Pennon Board delegates more detailed consideration of certain matters to the Board Committees, to the Executive Directors and to the Company Secretary. The matters reserved to the Board include:

- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and the monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and its Committees
- Approval of the annual reports and financial statements and the Annual Performance Report and Regulatory Reporting.

Without reserving to itself the final decision-making power, the Pennon Group Board also endorses 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 plan, annual budgets and certain decisions relating to financing. This approach remains compatible with Ofwat's 2019 Board leadership, transparency and governance principles.

The 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 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 54 to 59 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 two of the Pennon Non-Executive Directors, in addition to the Chairman, 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 54 to 91 of the Annual Report and Financial Statements.

Operation of the South West Water Board

The Board operates by receiving written reports circulated in advance of the meetings from the Executive Directors on matters within their respective business areas. The Board also receives presentations on key areas of the business and undertakes site visits to meet employees and gain a better understanding of the operation of business initiatives.

Under the guidance of the Chairman, all matters placed before the Board are discussed openly. 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. In arriving at decisions, the Board always considers the impact they might have on stakeholder groups when considering what is in the best interests of stakeholders as a whole.

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.

All Directors are equally accountable for the stewardship of the Company's affairs with the Non-Executive Directors having a particular responsibility for ensuring that strategies proposed for the development of the business are critically reviewed. The Non-Executive Directors also examine the operational and financial performance of the Company and fulfil a key role in corporate accountability through their membership of the governance Committees of the Board.

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 the Managing Director and Finance Director, who are also members of South West Water's Board and whose experience is described on page 72.

Executive Management Meetings (EMM)

Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors, in order to fulfil their duties, may seek independent professional advice at the Company's expense. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that there are good information flows between the Directors, the Board and its Committees.

Newly appointed Directors receive a formal induction which includes, inter alia, an explanation of the Pennon Group structure, regulatory and legal issues impacting the Company, the Pennon Group governance framework and policies, the Pennon Group's approach to risk management and the Company's principal risks (financial and non-financial, including environmental, social and governance (ESG) risks), duties and obligations (including protocols around conflicts of interest and dealing in Pennon Group shares), and the current activities of the Board and its Committees. Newly appointed Directors are also invited to visit different operating facilities and have to meet with staff in order to better understand key processes and systems.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training will include attendance at external courses organised by professional advisers and also internal presentations from senior management.

There are five further members of the Executive Management, who have responsibilities for key areas of operations of South West Water:

- Matthew Crabtree – Engineering Director
- Jo Ecroyd – Customer Service Director
- Sally Mills – Regulatory Director
- Ed Mitchell – Operations Director (Wastewater Services)
- Iain Vosper – Operations Director (Drinking Water Services)

Group support functions in attendance at EMM

- Head of IT
- Head of HR (South West Water)

Other South West Water functions in attendance at EMM

- Director of Resilience

South West Executive meeting

The South West Water Executive also meet monthly with the Pennon Group Chief Executive Officer and Chief Financial Officer ahead of South West Water and Pennon Board meetings.

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 73 to 83.

Board Committees' terms of reference

In accordance with policies, a range of key matters are delegated to the Board's Committees as set out on pages 73 to 83.

The terms of reference of each of the Board's Committees are set out on the Company's website www.southwestwater.co.uk and are also available from the Group Company Secretary upon request. The terms of reference, as well as the Board's schedule of matters reserved, were reviewed during the year to ensure that they remained appropriate and relevant.

Dealing with Directors' conflicts of interest

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers that this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

Code of Conduct and policies

South West Water has adopted the Pennon Group's Code of Conduct and related policies which set out the commitment to promoting and maintaining the highest level of ethical standards. Areas covered include our impact on the environment and our communities, our workplace and our business conduct.

The policy on anti-bribery and anti-corruption strictly prohibits employees from offering or accepting bribes, facilitation payments and kickbacks. The policy requires due diligence checks of third parties doing business with the Company, including a corruption risk assessment examining the nature of the proposed work or transaction. The policy sets the framework for our clear requirement that everyone who works with or for us must act honestly and with integrity at all times. It has been rolled out comprehensively into all parts of the Company, with ongoing face-to-face and online training provided into business units by the dedicated Pennon Group Legal Compliance team. Enforcement of the policy is achieved through planned and ad hoc checks, the training mentioned, and detailed investigations into allegations or whistleblows received from staff, customers and suppliers around potential wrongdoing.

The policy also sets out the employment consequences for breach of the policy and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the Company's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to read, understand and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Company's confidential whistleblowing ('Speak Up') service.

The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how this should be done and ensures that they are able to do so without fear of reprisals. The Company's whistleblowing policy specifically includes and encourages reporting of:

- Bribery or corruption
- Stealing or fraud
- Corruption or dishonest activity
- Anything else contrary to the law

Allegations of misconduct and irregularity are thoroughly investigated and follow-up action in respect of the Group's control environment is taken when appropriate. In the normal course of business, investigations into irregularities may be ongoing as of the date of the approval of the financial statements.

Our Code of Conduct and our policies are available on the Company website.

Our vision, purpose, values and culture

Our vision
Our vision is 'Bringing resources to life'

Our values



TRUSTED

We do the right thing for our customers and stakeholders.



COLLABORATIVE

We forge strong relationships, working together to make a positive impact.



RESPONSIBLE

We keep our promises to our customers, communities and each other.



PROGRESSIVE

We are always looking for new ways to improve and make life better.

Our purpose

Our purpose is to deliver the high quality water and wastewater services our customers depend on safely, responsibly, and in the most cost-effective and environmentally sustainable way possible.

Development of our purpose

We are committed to listening, engaging and reflecting our stakeholders' needs and priorities in our business plans and operations. Our engagement approach involves regular dialogue that is timely and open, building meaningful relationships based on trust and transparency. We use a wide range of methods to reach our stakeholders, ranging from formal independent research, focus groups and workshops to real-time conversations. We engage with our stakeholders in order to understand their needs and priorities, which in turn shape our strategy and social purpose.

As part of our risks, strengths and weakness engagement we asked customers if our business purpose continued to reflect SWW's role as a provider of an essential public service. 77% of customers agreed with this statement giving the feedback that it is an accurate description of our responsibilities', regulation and customer wise, it shows a commitment to protecting the environment and providing a vital service, the statement recognises the importance of good governance and our responsibilities towards the environment, customers and sustainability and it is open and transparent.

Our Board regularly reviews stakeholder feedback to ensure that our Company purpose reflects the expectations of our stakeholders, our role, as they see it, as a provider of an essential public service and a custodian of the environment, ensuring we meet our customers' needs and maintain services for future generations.

Aligning and monitoring values and culture with our vision and purpose

We have five strategic areas of focus – people and community, finance and economy, water, service and environment. Our business model is underpinned by strong governance and is designed to ensure we:

- deliver value for money services while keeping bills affordable to customers
- achieve 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.

Our purpose, strategy and values are areas that we actively monitor to ensure that they remain appropriate for the needs of those we provide services to, and the wider society.






Our values define the culture in which we all operate and are aligned to our overall purpose. Our Company values (trusted, responsible, collaborative and progressive) are clear and ensure that everyone knows as a regulated business how we operate and carry out our day-to-day operations. The values were co-created with our employees and we discuss how each function and each role contributes to them.

We regularly undertake reviews of our Board's objectives, including matters reserved to the Board, to ensure that the Board continues to focus on appropriate areas and priorities.

Two-way employee engagement is key to encouraging the right behaviours and we do this through a variety of channels and activities, for example, people committee, employee engagement forums where function representatives meet regularly with the executive team. Regular team meetings take place, where our values are reinforced. Employees have regular 121's and annual appraisals to review job role objectives, how activities and duties have been carried out and where improvements can be made. Senior management hold regular 'big chat' broadcasts where our Executive Team talk about issues facing the business in a live environment and are available for Q&A's. The Board and Executive Management routinely interact with employees as part of their site visit programme. This allows the Board to understand first-hand the key issues identified by our workforce and provide feedback directly. During the year the Board reviews and considers the outcomes of the Employee Engagement annual survey carried out by 'Great Place to Work'. The Board discusses the results and the plans to address the areas of focus identified. We have a Company wide 'Speak Up' programme, the outcomes of which are reviewed by the Board on an ongoing basis.

How governance supports strategy

The Board has overseen and led a number of initiatives supporting our Board pledges in line with the Company's strategic focus areas during the year:

STRATEGIC FOCUS AREAS	OUR BOARD PLEDGES	BOARD ACTIVITY IN 2019/20
 <p>People and Community Supporting our people and local communities</p> <p>▶ See more on page 38.</p>	<ul style="list-style-type: none"> We will deliver our promises, supporting the regional economy and our communities. 	<ul style="list-style-type: none"> Continued monitoring of the role-out of our 'HomeSafe' programme with a continued reduction in our lost time injury frequency rate (LTIFR) Development of social capital through positive investment and support for local communities including a baseline social capital impact assessment Oversight of Anti-Modern Slavery programme.
 <p>Finance and Economy Resilient business and service</p> <p>▶ See more on page 44.</p>	<ul style="list-style-type: none"> We will empower our customers by giving them a stake in our business. 	<ul style="list-style-type: none"> Development and review of detailed plans for implementation of our 'Watershare+' share scheme for implementation during 2020 Review and oversight of going concern, long-term viability and ring-fencing assessments Review of supplier base and Supplier Code of Conduct Approved financing through our Sustainable Financing Framework.
 <p>Water Clean, safe and reliable supplies</p> <p>▶ See more on page 12.</p>	<ul style="list-style-type: none"> We will deliver efficiency, keeping bills as low as possible, addressing water poverty. 	<ul style="list-style-type: none"> Oversight of the Mayflower Drinking Water Treatment Works construction and commissioning Monitoring of South West Water's water resource position, including reservoir levels following previous dry years.
 <p>Service Responsive to our customers' needs and priorities</p> <p>▶ See more on page 22.</p>	<ul style="list-style-type: none"> We will provide outstanding customer service. 	<ul style="list-style-type: none"> Extensive review of working processes to ensure customer service is maintained despite the impact of the COVID-19 pandemic Continued investment in customer service offering including in web chat and other online services.
 <p>Environment Environmentally sustainable actions and initiatives</p> <p>▶ See more on page 30.</p>	<ul style="list-style-type: none"> We will deliver environmental leadership. 	<ul style="list-style-type: none"> Review and oversight of our pollution strategy which has been effective in reducing serious pollutions incidents Launch of a 'Tree Commitment' to plant 100,000 trees by 2030 working with The Wildlife Trusts, Woodland Trust and Friends of the Earth, contributing to the Water UK initiative Implemented our revised Climate Change & Carbon Strategy.

GOVERNANCE CONTINUED

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 100 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 accordance with Ofwat's 'Board leadership, transparency and governance – principles' (January 2019), South West Water adopted its own Board leadership, transparency and governance Code 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 table below shows the Board membership and attendance at meetings during the year.

An effective Board requires the right mix of skills, experience and diversity. The matrix below highlights the areas of significant expertise and experience that each Non-Executive Director brings to the Board.

All the Executive Directors are considered competent and have experience in all the categories highlighted. All of the executive Directors attended 6/6 Board meetings during the year.

All Directors served during the year. Stephen Bird served on the Board until he passed away on 10 May 2019. In addition to the six Board meetings, a Group-wide strategy day is held in September each year.

BOARD MEMBERSHIP			ATTENDANCE			EXPERIENCE						
			Governance & regulation	Utility sector	Infrastructure	Accounting	Corporate finance & treasury	Environmental, social and governance	Customer service	Health & Safety	Political affairs	Technology
Non-execs	Sir John Parker	6/6	✓	✓	✓	✓		✓	✓	✓	✓	
	Lord Matthew Taylor	6/6	✓	✓				✓	✓	✓	✓	✓
	Jon Butterworth	6/6	✓	✓	✓			✓	✓	✓		✓
	Martin Hagen	6/6	✓	✓		✓	✓					✓
	Neil Cooper	6/6	✓	✓		✓	✓		✓			✓
	Gill Rider	6/6	✓	✓		✓		✓	✓	✓	✓	✓
	Iain Evans	6/6	✓	✓	✓	✓	✓	✓	✓	✓		
	Claire Ighodaro	4/4	✓	✓		✓	✓		✓			✓
Executives	Chris Loughlin	6/6	✓	✓	✓			✓	✓	✓	✓	✓
	Louise Rowe	6/6	✓	✓		✓		✓				
	Susan Davy	6/6	✓	✓	✓	✓	✓	✓	✓	✓		✓

All Directors served during the year. Stephen Bird served on the Board until he passed away on 10 May 2019.

In addition to the six Board meetings a Group-wide strategy day is held in September of each year.

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 ON PAGES 74 TO 78

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 the external auditors and the Board of Directors.

Members of the Audit Committee:

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

THE NOMINATION COMMITTEE

SEE MORE DETAIL ON PAGE 82

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
- Neil Cooper
- Gill Rider

THE SUSTAINABILITY COMMITTEE

SEE MORE DETAIL ON PAGES 79 TO 81

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:

- Iain Evans (Chairman)
- Lord Matthew Taylor
- Jon Butterworth
- Gill Rider
- Chris Loughlin

THE REMUNERATION COMMITTEE

SEE MORE DETAIL ON PAGE 83

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 102 to 113.

Members of the Remuneration Committee:

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

South West Water's Executive Management

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 five 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 the Managing Director and Finance Director, who are also members of South West Water's Board and whose experience is described on page 70. The five other members of the Executive Management, who have responsibility for key areas of operations of South West Water, are shown below. The Group Head of IT and the Head of HR – South West Water and South West Water Director of Resilience also attend the Executive Management Meetings.



IAIN VOSPER
Operations Director
(Drinking Water Services)

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 and as Regulation Director led the business plan process for the 2019 price review. South West Water was the only company in the industry to achieve 'fast track' status for both its 2015-20 and 2020-25 Business Plan by the industry regulator, Ofwat.

Following the initial assessment of South West Water's PR19 Business Plan, Iain was appointed as Operations Director (Drinking Water Services) in order to ensure challenging targets are achieved and stepped changes to service levels are made in line with the Business Plan.



MATTHEW CRABTREE
Engineering Director

Matt was appointed as Engineering Director in October 2018.

Matt has more than 30 years' experience delivering capital solutions in regulated industries including water, rail and highways.

He has worked for a number of high profile companies which include Tarmac, Balfour Beatty, Kier Group and most recently Costain Group. He studied Civil Engineering at Liverpool University, before joining the Royal Marines and serving in the Falklands.

He brings a wealth of commercial experience and engineering knowledge to South West Water.



SALLY MILLS
Regulatory Director

Sally joined South West Water in 1998 having spent five years gaining management experience in the food retail environment.

She has held various managerial roles in operations and customer services within South West Water.

She led the successful research and engagement streams for PR14 and PR19. She is also our affordability and vulnerability lead and having moved into the Regulatory team to support PR19 she was appointed as Head of Regulation and Customer Relations.

Sally was appointed as Regulatory Director – Interim to support the conclusion of PR19 and to support the business preparations to enable the delivery in line with the Business Plan. In December 2019 this appointment was made permanent.



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 joined Pennon Group Plc as Director of Environment and Sustainability in April 2017 and was shortly thereafter appointed South West Water's Operations Director (Wastewater Services).

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.

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. During the year, the key groups have been brought into an integrated Executive Management Meeting structure to ensure cross cutting issues can be discussed in an efficient and more extensive manner. The key groups and sub-committees are detailed below:

OUTCOME DELIVERY INCENTIVE GROUP

Performance commitments and targets are identified against key customer priority areas. Each of these performance commitments is incentivised under the 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.

It meets regularly 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

South West Water's Investment Planning Committee (IPC) is responsible for South West Water's Investment Planning and procedures which control the way capital investment is decided and approved, including all significant 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.

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.

HEALTH AND SAFETY STEERING GROUP (HSSG)

The Health and Safety Steering Group 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 the ongoing HomeSafe programme 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.

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 Finance Director chairs the Risk and Assurance Forum, which is now attended by all members of the Executive Management, with relevant senior managers attending when risks and assurance work relating to their areas of responsibility are being reviewed.

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.

Each of the project groups established includes all relevant members of the Executive Management and meets regularly receiving status reports from those managing and delivering the projects.

THE AUDIT COMMITTEE

The Audit Committee

The report provides details of the work carried out by the Committee and highlights our focus areas over the past year. The Committee supports the Board in fulfilling its responsibilities in respect of monitoring the quality and integrity of financial reporting, the adequacy of risk management and internal controls processes and governance and compliance matters. The principal responsibilities of the Committee continue to be focused on three key areas:

- Ensuring the adequacy of the Company's financial reporting; an activity that includes the assessment of the application of accounting policies given underlying standards, testing of accounting judgements made in preparing financial reporting and the assessment of whether the presentation of the Company's activities is fair, balanced and understandable
- Reviewing and challenging the ongoing effectiveness of the internal control environment
- The scope and adequacy of risk management processes across the Company. This includes monitoring the Company's risk appetite as well as acting as a forum for carrying out more detailed reviews of higher risk areas of the operation.

These responsibilities are discharged throughout the year in accordance with a schedule of business reflecting the annual reporting cycle of the Company, which is designed to allow sufficient time for their consideration while also permitting time to be spent on related key financial matters. Monitoring and reviewing the effectiveness of the external auditor and the internal audit function is a further important ongoing element of the Committee's assurance activities.

The Company's executive risk management forum continues to assess risk appetite and monitor key risks and their mitigation, with the Committee subsequently receiving detailed 'deep dive' presentations from senior management on areas impacting our principal risks. During the year, these covered a wide range of topics including dam safety at South West Water, health & safety, cyber risk management, Brexit readiness and the Company's approach to General Data Protection Regulation (GDPR). More detail on our risk management processes, principal risks and their associated mitigation can be found on pages 110 to 126.

Together with this risk orientated activity, we continue to review the output of the Company's viability assessment over varying periods; both short term in assessing the Company's 'Going Concern' status and over a longer period until the end of 2030 as it relates to the Company's continuing viability. Significantly this year, the viability assessment has considered a range of financial projections given a more complex environment including a UK general election, the Brexit transition period and most recently the ongoing COVID-19 pandemic. South West Water has continued to use a longer assessment period to 2030, noting a greater visibility of future cash flows, being a regulated business. Our viability statement is reported on page 112.

As part of the half-year and year-end reporting review process, we reviewed and challenged the key financial reporting judgements of management as set out on page 75. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report.

Looking ahead to 2020/21, as the full impact of COVID-19 emerges, the Committee will continue to monitor developments and adapt its approach to best support the Company's stakeholders.

South West Water Audit Committee composition and meetings

Five meetings of the South West Water Audit Committee were held during the year. Membership of the South West Water Audit Committee and their attendance was as follows:

Membership	Role	Attendance
Neil Cooper	Chairman	5/5
Lord Matthew Taylor	Non-Executive Director	5/5
Martin Hagen	Non-Executive Director	5/5
Gill Rider	Non-Executive Director	5/5

Other regular attendees to South West Water Audit Committee meetings during the year included:

- South West Water Managing Director
- South West Water Finance Director
- Pennon Group Chief Financial Officer
- Pennon Group General Counsel & Company Secretary
- Pennon Group Director of Treasury, Tax and Group Finance
- Pennon Group Director of Risk and Assurance
- Statutory external financial auditor.

In addition, the Board Chairman has an open invitation to attend the Committee meetings. In the last year his attendance included those meetings at which the Committee reviewed the half-year and full-year financial results of the Company.

The Board is satisfied that Neil Cooper and Martin Hagen have recent and relevant financial experience and competence in accounting or auditing. Details of each Director's significant current and prior appointments are set out on page 63.

The Chairman and two fellow Committee members are also members of the Remuneration Committee, which allows them to provide input into both Committees on any Company performance matters and on the management of any risk factors relevant to remuneration matters.

Significant matters considered by the Audit Committee

The calendar of business of the Committee sets in place a framework for ensuring that it manages its affairs efficiently and effectively throughout the year and is able to concentrate on the key matters that affect the Company.

The most significant matters that the Committee considered and made decisions on during the year and, where appropriate, since the year end, are set out below.

FINANCIAL REPORTING

- Monitored the integrity of the financial statements of the Company and the half-year and full-year results including reviewing and discussing significant financial reporting judgements contained in the statements
- Reviewing the internal assessment of Going Concern and longer-term viability on behalf of the Board
- After a detailed review in accordance with its established process, advised the Board that the presentation of the Annual Report and Financial Statements is fair, balanced and understandable in accordance with the reporting requirements and recommended their approval for publication
- Internal control and compliance
- Review of internal audit reports on core systems and processes across the Company.

EXTERNAL AUDITOR

- Considered the statutory financial auditor's report on its review of the annual results focusing on key findings
- Assessed external auditor effectiveness in respect of the previous year's external audit process
- Considered the statutory financial auditor's report on control themes and observations for the year ended 31 March 2019, which did not identify any significant deficiencies.

Note: in line with the structure of the Group, certain activities such as recommending reappointment of the statutory financial auditor and assessment of effectiveness of the statutory financial auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the Pennon Group Annual Report (pages 84 to 87).

RISK MANAGEMENT

- Reviewed the Company's risk management framework and compliance with that framework during the year and after the year end up until the publication of the Company's annual report
- Reviewed the assessment of the risks by the Executive Directors and considered risk appetite
- Reviewed the Company risk register and considered appropriate areas of focus and prioritisation for the audit work programme for the year
- Management of information security across the Company in mitigating key IT risks
- Received as part of the risk management review the annual report on any whistleblowing
- Carried out regular 'deep dives' at Committee meetings on principal risk areas.

GOVERNANCE

- Discussed the results of the performance evaluation of the Committee
- Reviewed new annual report disclosure requirements including the audit report
- Considered and approved accounting policies used in the preparation of the financial statements
- Confirmed compliance with South West Water's Code
- Regularly held meetings with the external auditor and the Pennon Group Director of Risk and Assurance without members of management being present.

THE AUDIT COMMITTEE CONTINUED

Significant matters considered by the Audit Committee continued

In respect of the monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2020 are set out in the following table, together with details of how each matter was addressed by the Committee.

At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 130 to 131. In addition to the significant matters set out in the table below, the Committee considered a range of other matters.

These included:

- Implementation and measurement considerations for IFRS 16 'Leases' which was adopted on 1 April 2019
- Presentational matters including contingent liabilities and assets and the non-underlying disclosures
- Ensuring a fair presentation of statutory and non-statutory performance and financial measures.

During the year, the Committee's areas of focus have been:

AREA OF FOCUS BY THE COMMITTEE: REVENUE RECOGNITION

How the matter was addressed by the Committee:

Given the nature of the Company's revenue, the areas of judgement continue to be in respect of revenue recognition relating to income from measured water services and estimates of timing of receipt of unmeasured revenue. The Committee relied on South West Water's refined assessment of water into supply and its track record of assessing an appropriate level of accrual at previous year ends as compared to invoiced revenue. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.

AREA OF FOCUS BY THE COMMITTEE: BAD AND DOUBTFUL DEBTS

How the matter was addressed by the Committee:

Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly against both South West Water's historical collection record and the track record of other companies in the sector. The Committee was particularly mindful of the impact of the COVID-19 pandemic on the assessment of expected credit losses (ECLs) in determining the bad debt provision, noting the likely impacts of the pandemic on non-household retailers and household customers. At the year end the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for ECLs was reasonable.

AREA OF FOCUS BY THE COMMITTEE: GOING CONCERN BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND VIABILITY STATEMENT

How the matter was addressed by the Committee:

A report from the Pennon Group Chief Financial Officer on the financial performance of both the Pennon Group and South West Water, including forward-looking estimates of covenant compliance and funding levels under different scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Pennon Group Chief Financial Officer prepares for consideration by the Committee a report focusing on the Group's liquidity over the 12-month period from the date of signing of either the annual report or half-year results. The report for 2019/20 included a downside scenario for the unfolding COVID-19 pandemic. The Committee also reviewed a report from the Finance Director and Pennon Group Chief Financial Officer on the Company's financial viability over an appropriate period, which the Board considers to be up to 2030, in connection with the UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board. Similarly, this report also considered the viability of the Company considering a downside COVID-19 scenario alongside the manifestation of other adverse events modelled from the Company's principal risks and Ofwat's mandated sensitivities for water companies. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on page 112.

Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as its independence, bearing in mind that it is recognised there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The current external auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. Their reappointment was approved at the 2019 Annual General Meeting. Christabel Cowling is the audit partner replacing Debbie O'Hanlon and is in her first year.

The external auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's annual report and financial statements and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is undertaken as part of the Committee's annual performance evaluation. Further details of the performance evaluation are provided on page 75. No issues were raised during that review and the Committee concluded that the auditor was effective during the year. The Committee chairman has also met privately with the external auditor to discuss key matters.

Auditor independence

The Committee carefully reviews on an ongoing basis the relationship with the external auditor to ensure that the auditor's independence and objectivity is fully safeguarded.

The external auditor reported on their independence during the year and again since the year end, confirming to the Committee that they have complied with the FRC's Ethical Standard and, based on their assessment, that they were independent of the Company.

Provision of non-audit services

In line with the requirements of the EU Audit Directive and Regulation which came into force on 17 June 2016, the Committee continues to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chairman to approve all non-audit work performed by the statutory auditor. The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work and would only grant approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be fully safeguarded. If there were another accounting firm that could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the external auditor.

The level of non-audit fees payable to the external auditor for the past year is 43.7% of the audit fee, which is well within the Company's 70% non-audit fee limit.

Internal audit

The internal audit activities of the Company are a key part of the internal control and risk management framework of the Company. There is a long-standing and effective centralised internal audit service at Pennon Group plc which makes a significant contribution to the ability of the Committee to deliver its responsibilities.

In 2018/19 Pennon Group plc established a new directorate of Risk and Assurance, encompassing Group risk reporting and internal audit. The consolidation of these activities fully aligns our internal audit approach with the Group's ongoing risk monitoring and mitigation. The 2019/20 Group and Company internal audit plan was approved in March 2019. It takes account of the principal risks, the activities to be undertaken by the external auditor, and the Group's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Company.

The Director of Risk and Assurance reported regularly through the year to the Committee on audit reviews undertaken and their findings, and there were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee chairman.

An external assessment of the internal audit function was last performed by KPMG LLP in 2016 and concluded that the Company's internal audit function conforms to IIA standards issued by the Institute of Internal Auditors but identified some areas for improvement including the alignment of the internal audit annual programme with the financial year and refreshed reporting content. These have been actioned.

THE AUDIT COMMITTEE CONTINUED

Fair, balanced and understandable assessment

To enable the Committee to advise the Board in making its statement that it considered that the Company's annual report and accounts is fair, balanced and understandable (FBU) on page 78, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the annual report and accounts. This is in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditor's report, which is set out on pages 130 to 131.

In preparing and finalising the 2020 annual report and accounts, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Statement of compliance with CMA order

Pennon Group plc undertook a competitive audit tender process in 2014, which included the statutory audit engagement for South West Water. The Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Following the rotation of the senior statutory auditor, the Committee considers a full tender for the Pennon Group's external audit services, including the statutory audit of South West Water, subject to its annual reviews, likely in the year ending March 2024. This allows for any potential new audit firm to take up the role for the year ending March 2025. The Committee believes this approach is in the best interest of shareholders, as over this period the Pennon Group will benefit from an efficient and effective audit, while receiving fresh challenge from a new senior statutory auditor.

Integrated assurance framework

Throughout the year South West Water had in place an effective integrated assurance framework which identifies and monitors all types of assurance to enable a full evaluation of the conclusions drawn by all auditors, inspectors and reviewers from both internal and external providers.

The framework utilises a risk-based approach to ensure an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements.

(i) Group independent internal audit

South West Water utilises the Pennon Group's independent Internal Audit function, to provide effective risk based coverage over the internal control environment. The Audit Committee's interactions and engagement into internal audit, including input into the annual plan are summarised above.

(ii) Annual assurance (financial and technical audit)

Alongside the statutory external auditor, South West Water also engages a Technical Auditor to provide assurance over key areas of regulatory performance reporting. This assurance considers our reported performance against key regulatory outputs and measures.

(iii) Quality assurance and ISO Internal Reviews

The South West Water Audit Committee also considers the resources for carrying out internal audits and reviews in key Company specific areas and endorses and acts on findings from these reviews carried out within the Company. There is a programme of internal audits coordinated by the Risk and Compliance Department as part of the Company's ISO certifications.

South West Water has the following accreditations/certifications:

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

These specific areas are also subject to periodic external reviews (such as ISO external reviews).

Ofwat company monitoring framework

In 2015 Ofwat, the economic regulator for the water and wastewater industry in England and Wales, introduced the Company Monitoring Framework (CMF) which was used as a tool to encourage companies to deliver high quality assurance of the information that they produce.

An assessment was carried out each year by Ofwat to ensure that companies were communicating in a clear, accessible and transparent way and that the information gave a fair view of how a company is performing. Companies were then put into one of three categories depending on how they scored: self-assurance, targeted or prescribed.

In the last assessment, undertaken in January 2019, we were categorised as targeted as Ofwat identified some areas of concern with our data reporting. We have since addressed these concerns by providing additional information within our Annual Performance Report.

In August 2019 Ofwat issued an information notice informing companies that they would not be publishing further CMF assessments but would continue to scrutinise and challenge companies' approaches to data quality and assurance of their performance reporting. We continuously keep this information under review, alongside risk monitoring, to ensure that all our customers and stakeholders have trust and confidence in the information we provide. We have continued to publish a Risks, Strengths and Weaknesses statement and Assurance Plan, first introduced as part of the CMF, as we believe it is a worthwhile exercise, ensuring that we are meeting our customers' needs with regards to the information we provide to them.

South West Water's 2019/20 Summary Assurance Report

In July 2020, South West Water will publish its third annual 'Summary Assurance Report', which will again detail assurance work which has been performed in areas which it has identified following consultation as significant areas for assurance, which includes annual reporting. This report will be available at www.southwestwater.co.uk/report2020.

THE SUSTAINABILITY COMMITTEE

The Sustainability Committee

Designed to add value and resilience to our business, our sustainability strategy was refreshed in 2018/19 and is integrated with the Company's business, people and health & safety strategies. It clearly sets out our long-term objectives, three-year targets and our associated KPIs and implementation plans required to ensure continuously improving sustainability performance and responsible business practice throughout the organisation.

The role of the Sustainability Committee is to ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee the Company's performance against its strategic sustainability objectives. In what has been a busy and important year, we have refined and approved a full set of three-year targets and associated KPIs to monitor progress against our agreed strategic objectives, within the ESG framework.

In the development of our new strategy we have tested thoroughly the materiality of our areas of focus and consulted a cross-section of our key stakeholders. We have also set Pennon Group-wide three-year sustainability targets in support of the new strategy which we will use to monitor progress towards our strategic objectives. We will report on our performance against these targets regularly.

We have assessed and aligned our objectives and targets against the most relevant of the United Nations Sustainable Development Goals (SDGs) and will increasingly monitor our performance using the SDGs.

A strong performance against these SDGs and our own sustainability objectives ensures high standards of corporate responsibility for the benefit of all our stakeholders – our customers and communities, our people, suppliers and regulators, and our investors.

This annual report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

Sustainability Committee composition and meetings

Four meetings of the South West Water Sustainability Committee were held during the year. Members of the Committee and their attendance were as follows:

Membership	Role	Attendance
Iain Evans	Chairman	4/4
Gill Rider	Non-Executive Director	4/4
Lord Matthew Taylor	Non-Executive Director	4/4
Jon Butterworth	Non-Executive Director	4/4
Chris Loughlin	Managing Director	4/4

All members of the Committee served throughout the year.

The South West Water Sustainability Committee provides assessment and oversight of South West Water's performance against sustainability targets that have been core to the successful delivery of its K6 Business Plan 2015-20. This is consistent with Ofwat's requirement for independent governance of the regulated business.

The Committee ensures challenging targets are set and approved. As at 31 March 2020, South West Water remains on track to achieve all of its new three-year targets. Full details of the sustainability performance against previous targets is shown on page 81.

During the year the Committee continued to note the Pennon Group's engagement with Business in the Community (BiTC), The Prince's Responsible Business Network and a leading business-led charity. Pennon is an active participant in BiTC's South West Regional Board.

The Sustainability Committee continues to aim to ensure a transparent approach to conducting business in a responsible manner, within a business focused on delivering robust financial performance and sustainable value for shareholders and stakeholders.

The Committee reviews and approves appropriate strategies, policies, management processes, initiatives, disclosures, targets and performance of South West Water in the areas of occupational health, safety, well-being and security, environment and compliance, workplace policies, responsible and ethical business practice, supply chain, customer service and engagement, community benefit, and the role and value of the Company in society.

During 2019/20, the Committee has considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- The Company's health & safety performance and the effectiveness of health & safety policies and procedures, including the continued roll-out of the HomeSafe programme
- Sustainability and environmental strategy and performance
- Sustainability reporting and disclosures for 2019 and the associated verifier's reports and recommendations
- Progress against the sustainability targets for 2019/20 and sustainability targets for 2020-23
- Performance in respect of customer service, satisfaction and engagement
- The Company's approach to community relations, community benefit and investment
- Performance against the Company's workplace policy, within its people strategy, including the results of the latest Company-wide employee engagement survey
- Climate change and carbon management strategy
- Sustainable supply chain procurement and practices, including a new Suppliers' Code of Practice
- Natural and social capital net impact assessment and methodologies
- Priority programmes (plastics, biodiversity and sustainable finance)
- Good governance review.

THE SUSTAINABILITY COMMITTEE CONTINUED

Reporting and verification

South West Water's sustainability performance and reporting has been audited by Jacobs (a global provider of technical, professional and scientific services, including engineering, architecture, construction, operations and maintenance) as part of its audit of performance data contained within the Annual Performance Report. Jacobs utilise water industry specialists in the audit of our non-financial data.

South West Water considers that Jacobs' method of verification – which includes testing the assumptions, methods and procedures that are followed in the development of data and auditing that data to ensure accuracy and consistency – complements the best practice insight gained through South West Water's membership of Business in the Community.

Jacobs have provided a technical auditor's report outlining its opinion and key findings on pages 132 to 134.

Benchmarking

The Pennon Group (including South West Water) is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, Dow Jones Sustainability Index and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. These leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice.

South West Water sustainability report

South West Water's formal sustainability reporting is integrated throughout the strategic report of the Annual Report and Financial Statements and specifically in the following sections:

- Chairman's statement (pages 3 to 5, Annual Report and Financial Statements)
- Business model (page 14, Annual Report and Financial Statements)
- Strategic priorities (page 14, Annual Report and Financial Statements)
- Our people (pages 17 to 20, Annual Report and Financial Statements)
- Our operations (pages 21 to 26, Annual Report and Financial Statements)
- Sustainability targets (pages 8 and 9, Annual Report and Financial Statements).

The sustainability reporting is largely mirrored in this Annual Performance Report and Regulatory Reporting, which additionally includes more details of our operational performance in respect of sustainability.

SUSTAINABILITY TARGETS

Sustainability targets

A summary of South West Water's performance against sustainability targets for 2019/20 is outlined in the following report.

Environmental sustainability

The protection of the environment is an essential aspect of ensuring that we have high quality resources available now and in the future. By working alongside partner organisations and agencies and identifying how new technology and innovation can reduce our impact we aim to deliver water and wastewater services in harmony with the ecosystems and habitats of our region.

Target	Status
To ensure the average time taken to fix significant customer reported leaks is less than two days	NOT MET ¹
To achieve zero Category 1 and 2 pollution incidents which are our responsibility from wastewater assets	NOT MET ²
To increase the number of farms that have an agreed plan to benefit the environment (864 plans in place against a five-year target of 750) and the acres of habitat restored to deliver better environmental outcomes (5,713 acres restored against a five-year target of 3,212)	MET

¹ In 2019/20, we did not achieve our targeted performance of less than two days to fix significant leaks. This was primarily due to a high volume of leaks occurring in hard to reach rural areas. Please see page 19 for more detail.

² Regrettably South West Water failed to meet its target for zero Category 1 or 2 pollutions from wastewater assets in 2019/20 due to a single Category 2 incident. This represents an improving trend but we recognise there is more work to be done in this area. See page 35 for more detail.

Community sustainability

As the providers of an essential service we have a responsibility and vested interest in understanding and meeting the needs of the various communities across the area we serve. It is our aim to be a 'good neighbour', having a positive effect on our local communities and the quality of life that they enjoy.

Target	Status
To minimise our supply interruptions to customers and ensure that they do not exceed 0.2 hours per property	MET
To increase the number of customers assisted through our water affordability initiatives in line with our Business Plans (to over 23,210)	MET
To invest at least £80,000 in the local community through sponsorship and charitable donations during the year and measure benefits this investment has delivered	MET

Workplace sustainability

Engaged staff are critical to the success of the Company. Colleagues who are more engaged feel safer, are involved in fewer accidents at work, take fewer days off sick and receive more positive feedback from customers. Put simply, working to improve engagement is a key part of working to improve overall performance and sustainability.

Target	Status
To achieve employee satisfaction of 80% as measured in our annual survey	MET
Our desire is to have no accidents at work and to achieve a reducing lost time accident frequency rate	MET
To have extended the recruitment of apprentices on our programme by the end of 2019/20 to over 110	MET

Marketplace/customer sustainability

Our ultimate goal is to provide our customers with the highest standards of service, ensuring that their requests, problems and queries are dealt with first time and that the service they receive represents value for money. In turn, this helps South West Water to build a solid reputation for high quality customer service, which contributes to the creation of shareholder value.

Target	Status
To achieve an average of 90% of our customers being satisfied or very satisfied with our overall services	MET
To achieve an average of 90% of our customers being satisfied with the value for money of our services	NOT MET ¹
To ensure our water and wastewater activities are emitting a reduced level of greenhouse gas compared to 2014/15 in line with our Business Plan	MET

¹ Customer satisfaction with value for money has declined compared to last year's best ever score. However, satisfaction levels during 2015-20 have increased on average by 15%, compared to the previous five years. Please see page 24 for more detail.

Operational performance section

Each of the above benchmarks chosen as our sustainability targets are also reported as either 'performance commitments' in respect of 'outcomes' specified in our 2015-20 regulatory business plan or as separate internal Key Performance Indicators within the operational performance section of this report.

THE NOMINATION COMMITTEE

The Nomination Committee

The Nomination Committee met three times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the meetings of the Committee. Other regular invitees to the Committee during the year included the Managing Director, the Pennon Group Director of Human Resources and the General Counsel and Company Secretary.

Matters considered by the Committee during the year included:

- The annual review of the policy on Diversity, Respect and Inclusion and the Company's progress on diversity
- A review of succession planning for Non-Executive Directors and a horizon scanning exercise for potential Non-Executive Directors to complement the current Board
- A review of the time spent by Non-Executive Directors in fulfilling their duties
- A review of the Company's succession plans, leadership of the Company and the Company's approach to succession planning
- A review of the gender pay disclosure for 2019 and ongoing action plan
- Discussions around the ethnic diversity ambition
- Introducing a general monitoring tool
- A review of the Committee's performance in the year
- A review of the Committee's terms of reference.

It is the practice of the Committee, led by the Chairman, to appoint an external search consultancy to assist in Board appointments to ensure that an extensive and robust search can be made for suitable candidates.

Nomination Committee composition and meetings

Director	Role	Attendance
Sir John Parker	Chairman	3/3
Lord Matthew Taylor	Non-Executive Director	3/3
Martin Hagen	Non-Executive Director	3/3
Neil Cooper	Non-Executive Director	3/3
Gill Rider	Non-Executive Director	3/3

Board effectiveness review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This year, the Committee engaged independent Board performance consultancy Condign Limited (Condign) to facilitate the review. Condign has no other connection with the Group. The exercise was conducted in March 2020 by way of:

- a review of the papers submitted to the Board and Committees over the course of the year
- attendance at the Board meeting in March 2020 to observe the proceedings and debate
- a series of structured interviews with each member of the Board
- a review of the results of the 2019 performance evaluation and an assessment of whether the issues identified in that report had been addressed.

The Senior Independent Director separately carried out a review of the individual Directors' performance and led the evaluation of the Chairman's performance.

Condign collated and analysed the output from their activities and prepared a report, which was discussed by the Board and its Committees. The report noted that the Board had risen to the challenge of maintaining oversight of the existing businesses and risks, while effectively guiding delivery of South West Water's 2020-25 Business Plan.

Having reviewed the report, the Committee agrees that the composition of the Board provides a good balance of skill, experience, knowledge, diversity and understanding of stakeholder interests. Further, it was noted that the Directors work well together and that each Director continues to contribute effectively to boardroom debate. The Committee concludes therefore that no modification to the composition of the Board is required as a result of the review.

The areas identified in the Board effectiveness review as requiring future focus: ensuring the continued effectiveness of the Board and the Company's governance framework; the Company's future strategy; and succession planning. In addition, the review confirmed the Board's commitment to health & safety and a desire to fully understand the leadership and cultural drivers required to drive improvements in health & safety performance. The Committee considers that while good progress has been made in the areas identified in the 2019 review, matters such as diversity and Directors' training and development deserve ongoing attention. The Committee welcomes the regular review of succession planning to ensure that this continues to support the Company's strategy.

Board diversity policy

The Committee is required by the Board to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the annual report each year.

The Board's diversity policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of gender and ethnic diversity on the Board
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior management to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board. The Committee is mindful of the content of the 2018 UK Corporate Code and will endeavour to achieve and maintain:
 - A minimum of 33% female representation on the Board
 - A minimum of 33% female representation on the Company's senior management team.

Action is being taken to improve diversity across the workforce, which will assist in increasing female representation at senior management level as described on page 18 of the Annual Report and Financial Statements. In support of this aim, both our Chairman and our Managing Director are members of the 30% Club, a UK campaign that supports the goal of women holding 30% of board seats and promotes initiatives to expand the female talent pipeline at all levels.

Our parent company Pennon Group plc was also listed in Bloomberg's gender equality index, representing 325 companies globally, for its pro-woman brand, female leadership and talent pipeline, equal and gender pay, inclusive culture and sexual harassment approach.

The Committee and the Board will continue to monitor and promote diversity across the Company with the aim of ensuring a diverse pipeline for succession to Board and senior management positions in accordance with our Diversity, Respect and Inclusion Policy, which encourages the growth of a diverse workforce where individuals from different backgrounds can fulfil their potential. Information regarding the gender breakdown of the workforce is provided on page 18 of the Annual Report and Financial Statements.

Talent management and succession planning

Internal talent development as well as the ability to attract, retain and develop skilled, high potential individuals across the Company are areas on which the Committee continues to focus. The Committee, supported by the Group HR Director, reviews both the Executive and Non-Executive leadership, including flight risks and mitigation plans as part of a regular agenda. Horizon scanning externally has also become a more regular activity, to ensure that the Board remains flexible to respond to changing priorities of the Company.

THE REMUNERATION COMMITTEE

The Remuneration Committee

The Committee met five times during the year to fulfil the duties set out in its terms of reference. In particular, the Committee is responsible for:

- Ensuring remuneration is aligned with and supports the Company's strategy, reflects our values and optimises performance
- Maintaining and, in every third year, reviewing the remuneration policy and considering any changes necessary to ensure it remains appropriate and fulfils its purpose of attracting and retaining high-calibre people who are able to contribute to the success of the Company
- Advising the Board on the framework of executive remuneration for the Company
- Determining the remuneration and terms of engagement of the Chairman, the Executive Directors and senior executives of the Company
- Reviewing workforce remuneration and related policies for the purpose of aligning incentives and reward with culture, taking these into account when setting the remuneration policy for Executive Directors and providing the Board with feedback.

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 the 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 Committee's activities during the financial year

The Committee engaged in the following activities during the year:

- Undertook a comprehensive review and external consultation exercise in advance of releasing our updated remuneration policy
- Monitored external developments in remuneration
- Undertook a pensions review, with a view to ensuring alignment of Executive Directors' pensions with that of the wider workforce, including supporting management proposals to consult with the wider workforce with proposals to modernise the pension offering. The results have ensured higher pension contributions to employees across the Company
- Agree executive remuneration ensuring it remains appropriate and meets all regulatory requirements, including meeting Ofwat requirements
- Reviewing the wider workforce remuneration using a pay dashboard, to help inform Executive pay decisions and ensuring cultural alignment
- Completing the annual Executive salary review and the annual review of the Chairman's fee
- Reviewing drafts of the Directors' annual remuneration report and recommending it to the Board for approval for inclusion in the 2020 annual report
- Determining performance targets in respect of the Annual Incentive Bonus Plan for 2019/20
- Determining bonuses and deferred bonus awards pursuant to the Company's Annual Incentive Bonus Plan in respect of the year 2018/19
- Approving the long-term incentive plan (LTIP) awards for the year
- Reviewing the Group's gender pay gap report
- Approving the release of the 2016 deferred bonus share awards and reviewing the outcome of the 2016 LTIP awards
- Reviewing the Committee's terms of reference and undertaking a review of the Committee's performance in the year.

The Committee's focus for 2020/21

- Ensure that targets are stretching but also fair and achievable, so that they act to retain, motivate and incentivise the Executive to deliver the Company's strategic goals, deliver the PR19 regulatory commitments and create long-term value for shareholders
- Monitor on an ongoing basis the alignment of Executive pay and benefits with the strategic direction of the Group to ensure these support the long-term success of the Company and promote its values
- Review workforce remuneration and related policies for the purpose of aligning incentives and reward with culture, taking these into account when setting the remuneration policy for Executive Directors and providing the Board with feedback
- Monitoring of the updated remuneration policy to ensure that it is delivering what it is meant to and assists in retaining and motivating employees, while continuing to meet best practice.

Remuneration Committee composition and meetings

There were five meetings of the South West Water Remuneration Committee during the year. Members of the Committee and their attendance were as follows:

Membership	Position	Attendance
Gill Rider	Chairman	5/5
Neil Cooper	Non-Executive Director	5/5
Martin Hagen	Non-Executive Director	5/5

In accordance with the Code, all of the Committee members are independent Non-Executive Directors. The Chairman of the Board attends from time to time but is not a member of the Committee. The Pennon Group Chief Executive Officer (who is also a member of the South West Water Board) also attends meetings when invited except for such part of a meeting when matters concerning his own remuneration are to be discussed.

The Committee is advised by Deloitte, an independent remuneration consultant, to ensure remuneration is determined impartially. The Committee is also supported by the Group Director of Human Resources and the Group General Counsel and Company Secretary.

DIRECTORS' REMUNERATION AT A GLANCE

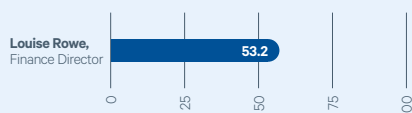
2019/20 – performance highlights and outcomes

COMPANY PERFORMANCE

- Cumulative return on WaterShare regulated equity over K6 (2015-20) of 11.8%
- South West Water began the K7 (2020-25) regulatory period as the only company to have achieved fast-track status for its Business Plan in two consecutive five-year price reviews.

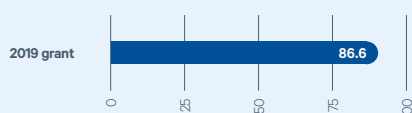
ANNUAL BONUS 2019/20 OUTTURN¹

(% of maximum)



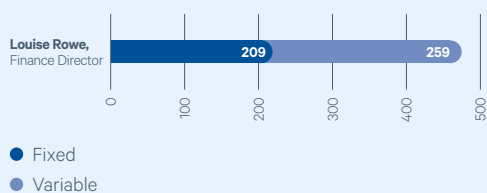
PERFORMANCE AND CO-INVESTMENT PLAN OUTTURN

(% of maximum)



2019/20 SINGLE FIGURE OUTCOME

(£'000)



Link to customers

Pay linked to underlying performance

- Significant portion of executive remuneration linked to performance of the business

Performance pay – appropriately aligned with customer interests

- Annual bonus includes customer and operational measures linked to metrics assessed by the water industry regulator, customers, communities and wider stakeholders

Bonus and long-term incentives – substantial link to stretching performance delivery for customers

- Stretching targets – motivate management to deliver sustainable performance
- Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

Principles used to develop remuneration policy

Clarity and simplicity

The Committee is committed to providing open and transparent disclosures with regards to executive remuneration arrangements

Risk

Annual bonus deferral, the LTIP holding period and shareholding requirements ensure that Executive Directors are exposed to the long-term performance of the Company

Predictability

For each component of pay, the policy outlines the maximum opportunity levels for Executive Directors

Actual incentive outcomes will vary depending on the level of performance achieved against specific measures

Proportionality

Our remuneration framework does not reward poor performance. Payment of the annual bonus and LTIP are subject to the achievement of stretching performance targets

Alignment to culture

The metrics used to measure both short- and long-term performance at South West Water and Pennon are closely aligned to our business strategy and vision. Delivery of awards in shares delivered over 3-5 years and shareholding guidelines ensure focus on sustainable performance

¹ Stephen Bird is not shown in the table above as he passed away on 10 May 2019 and his 2019/20 remuneration is not considered significant. Chris Loughlin's remuneration is shown in full in the Pennon Annual Report pages 94 to 115. 50% of his remuneration is recharged to South West Water.

Link between Group strategy and remuneration

LEADERSHIP IN UK WATER AND WASTE INFRASTRUCTURE

We aim to lead in the water and waste sectors by capitalising on Group strengths, capabilities, best practice and synergies and achieving the right balance between risk and reward.

LEADERSHIP IN COST BASE EFFICIENCY

We are focused on driving down overheads and operating in the most efficient way to minimise costs.

DRIVING SUSTAINABLE GROWTH

We actively seek opportunities to invest for growth, whether through investment to increase our asset portfolio, initiatives to expand our customer base or partnerships with other organisations.

GROUP KPIS	LINK TO GROUP STRATEGY			LINK TO VARIABLE REMUNERATION	
	1	2	3	ANNUAL BONUS	LTIP
Long-term					
Earnings per share ¹	✓	✓	✓		✓
Dividend per share ¹	✓	✓	✓		✓
Return on capital employed (RoCE) ¹		✓	✓		✓
Annual					
Profit before tax (PBT) ¹	✓	✓	✓	✓	
Return on regulated equity (RoRE) ²	✓	✓	✓	✓	
ODI net rewards ²	✓		✓	✓	
Sustainable business					
Customer satisfaction with overall service ²	✓		✓	✓	
Employee engagement ²	✓		✓	✓	
Health and safety ²	✓		✓	✓	
Carbon emissions ²	✓		✓	✓	

1 Pennon Group metric.

2 Reflected in bonus operational and individual metrics.

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Introduction

The Company delivered another year of robust financial and operating performance in 2019/20.

South West Water finished the K6 (2015-20) regulatory period with a cumulative return on WaterShare regulated equity of 11.8% and the successful conclusion of the 2019 price review process (PR19). As a result, South West Water began the K7 (2020-25) regulatory period as the only company to have achieved fast-track status for its Business Plan in two consecutive five-year price reviews.

The Company has an ambitious road map for health & safety, largely focused on our HomeSafe programme. This has yielded a range of improving and encouraging trends in recent years, however we continue to seek improvements as we work towards our goal of being a health & safety leader in our industry.

We continue to make progress against our long-term sustainability strategy. In 2019/20, South West Water further reduced the number of serious and significant pollution incidents to one Category 2 event, building on the previous year's performance which was itself our best performance for a decade. Less serious grades of pollution incident continue to be a challenging area; an accelerated pollution plan has been implemented and we continue to make additional investment. Our water resources position recovered from the previous dry year and we have met our leakage target for 20 years in a row.

Despite the COVID-19 crisis, the Company continues to have significant cash and liquidity and has not taken any Government support measures.

Incentive outcomes

The significant progress against financial and operational objectives is reflected in the outcomes against the bonus scorecard and individual objectives. Further details are set out on page 90.

Overall, the annual bonus earned in respect of the year is 78.0% of salary for the Managing Director and 53.6% of salary for the Finance Director. The Committee is satisfied that the bonus outcome is fully supported by performance in the year.

Half of the bonus earned is deferred into shares which affirms Executives Directors' commitment to creating a long-term, sustainable business.

Share awards granted under the long-term incentive plan (LTIP) in 2017 will be eligible for vesting in 2020. This award was based on Pennon Group metrics: EPS growth (40%), dividend growth (40%) and return on capital employed (20%), as well as an 'underpin' evaluation, including consideration of safety, ESG factors and financial performance.

Awards are expected to vest at 86.6% of maximum, as shown on page 94. This is reflective of EPS growth of over 9.5% and returns of 9.6% for the Pennon Group.

Vested shares for Executive Directors will remain subject to an additional two-year holding period.

Policy review

Our previous remuneration policy was approved in 2017. Under the normal three-year renewal cycle, and reflecting our commitments in our PR19 Business Plan we have established a new policy from 2020.

The key points to note in respect of the policy are:

- no material changes to structure – the conventional bonus and LTIP structures will be retained
- bonus metrics – change to provide greater alignment with customer priorities and operational delivery targets alongside ensuring financial sustainability. No change is proposed to the maximum of 75% of salary for the Finance Director. The weighting of the bonus metrics has changed to provide additional focus on key customer and operational priorities, as the Company moves towards delivery against the plan agreed with Ofwat for the next five-year regulatory period, which commenced on 1 April 2020. Half of the award would continue to be deferred into shares for three years
- LTIP metrics – changes to reflect long-term customer delivery based on Return on Regulated Equity (RoRE), sustainable dividends and customer service metric (CMex). No change is proposed to maximum (80% of salary)
- pensions – for new hires pensions will be aligned with arrangements offered to wider employees
- malus and clawback – provisions have been strengthened to align with best practice.

Further detail on pay arrangements is provided in the main body of the remuneration report and the changes to the remuneration of the Managing Director are shown in the Pennon annual report (reflecting his role as CEO of Pennon Group plc).

DIRECTORS' REMUNERATION POLICY

Introduction

The previous remuneration policy was approved in 2017. Under the normal three-year renewal process, a new remuneration policy has been developed, as described in this part of the report.

The policy is displayed in its entirety on the South West Water website and is also available upon request from the Group Company Secretary.

Changes to the remuneration policy

The policy has been updated in order to be better aligned with evolving market and best practice, including the remuneration elements of the 2018 UK Corporate Governance Code and the commitments made in our PR19 Business Plan. Throughout the Committee's deliberations on pay matters, careful consideration is given to the strategic priorities of the business, evolving market practice and regulatory guidance. Input is regularly sought from the management team, while ensuring that conflicts of interests are suitably mitigated. External perspective is also provided by our independent advisors. The Committee also assesses the operation of the policy against the principles of clarity, simplicity, risk-management, predictability, proportionality and alignment to culture detailed in the 2018 UK Corporate Governance Code.

The changes incorporated into this policy include:

- a change in pension benefits for newly appointed Executive Directors to be aligned with arrangements offered to employees in the wider organisation;
- changes in the metrics used for annual bonus and LTIP schemes
- strengthening of safeguards against payments for failure, by enhancing existing malus and clawback provisions, and
- minor changes to clarify the operation of the policy and improve its effectiveness.

Summary of Directors' remuneration policy and implementation in 2020/21

PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM
Base salary		
<p>Set at a competitive level to attract and retain high calibre candidates to meet the Company's strategic objectives in an increasingly complex business environment.</p> <p>Base salary reflects the scope and responsibility of the role as well as the skills and experience of the individual.</p> <p>Performance framework: None, although individual and Company performance are factors considered when reviewing salaries.</p>	<p>Salaries are generally reviewed annually and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.</p> <p>However, the Committee reserves the right to make increases above those made to general employees, for example in circumstances including (but not limited to) an increase in the scope of the role, or to reflect an individual's development in a role.</p>	<p>When reviewing salaries the Committee has regard to the following factors:</p> <ul style="list-style-type: none"> • salary increases generally for all employees in the Company and the Group • market rates • performance of individual and the Company • other factors it considers relevant. <p>There is no overall maximum.</p>
Benefits		
<p>Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.</p> <p>Performance framework: None</p>	<p>Benefits currently include the provision of a company vehicle, fuel, health insurance and life assurance. Other benefits may be provided if the Committee considers it appropriate.</p> <p>In the event that an Executive Director is required to relocate, relocation benefits may be provided.</p>	<p>The cost of insurance benefits may vary from year to year depending on the individual's circumstances. There is no overall maximum benefit value but the Committee aims to ensure that the total value of benefits remain proportionate.</p>
Pension related benefits		
<p>Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.</p> <p>Performance framework: None</p>	<p>Defined benefit pension arrangements are closed to new entrants. Defined contribution pension arrangements have been available to new staff since 2008.</p> <p>A cash allowance may be provided as an alternative and/or in addition where pension limits have been reached.</p>	<p>Pension benefits for new appointments will be aligned with the rate available for the majority of employees at the time of appointment.</p>

DIRECTORS' REMUNERATION POLICY CONTINUED

PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM
Variable pay and share-based remuneration		
<p>Incentivises the achievement of key performance objectives aligned to the strategy of the Company.</p> <p>Performance framework: Performance targets may relate to financial, operational, strategic and personal objectives which are reviewed each year. Performance criteria will reflect strategic priorities and regulatory requirements.</p> <p>The level of payment for threshold performance will vary depending on the nature of the metric and the stretch of the target set. There is normally scaled payment for performance between the threshold and maximum performance hurdle.</p> <p>The measures, weighting and threshold levels may be adjusted for future years.</p> <p>Following the financial year end the Committee, with advice from the Chairman of the Board and following appropriate input from other Board Committees (including the Audit Committee), assesses to what extent the targets are met and determines bonus levels accordingly. The Committee may exercise its discretion in certain circumstances; further details are set out on page 96.</p>	<p>Annual bonuses are calculated following finalisation of the financial results for the year to which they relate.</p> <p>A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred.</p> <p>Dividends (or equivalents) may be paid on deferred shares during this period.</p> <p>Awards are subject to malus and clawback provisions. Further details are set out on page 89.</p>	<p>The maximum bonus potential for the Finance Director is 75% of base salary and for the Managing Director 125% of base salary.</p>
Long-term incentive plan (LTIP)		
<p>Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value and customer delivery.</p> <p>Performance framework: Performance criteria are linked to our long-term strategy focused on customer and financial sustainability.</p> <p>The 'underpin' evaluation includes consideration of safety, environmental, social and governance (ESG) factors as well as financial performance.</p> <p>No more than 25% of maximum vests for minimum performance.</p> <p>The Committee will keep the performance measures and weightings under review and may change the performance condition for future awards if this were considered to be aligned with the Company's interests and strategic objectives, as well as the impact of regulatory changes. In certain circumstances, the Committee may exercise its discretion and adjust performance outcomes. Further details are set out on page 97.</p>	<p>Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over a performance period of no less than three years.</p> <p>An 'underpin' applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company.</p> <p>In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period.</p> <p>Dividends (or equivalents) may accrue on share awards that vest.</p> <p>Awards are subject to malus and clawback provisions.</p>	<p>The maximum annual award is 100% for Finance Director of base salary. The maximum annual award is 150% for Managing Director of base salary.</p>
All-employee share plans		
<p>Align the interests of all employees with Pennon Group plc share performance.</p> <p>Performance framework: None</p>	<p>Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees.</p>	<p>The maximum is as prescribed under the relevant HMRC legislation governing the plans.</p>
Shareholding guidelines		
<p>Create alignment between Executives and stakeholders and promote long-term stewardship. During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to 100% of salary.</p>	<p>The Committee retains discretion to waive this guideline in certain cases (e.g. compassionate circumstances).</p>	<p>N/a</p>

Notes to the table

Performance measures and targets

The performance conditions for the annual bonus plan are selected by the Committee each year to reflect key performance indicators and metrics used by the Board to oversee the operation of the businesses. There is a strong emphasis on financial and operating metrics.

In prior years the LTIP was based on Pennon Group EPS growth, a sustainable dividend metric (comprising dividend growth and dividend cover) and return on capital employed (RoCE). The Committee chose these measures as they were closely aligned with South West Water's strategic focus on the delivery of sustained earnings and related cash flows and the long-term capital returns generated. As noted previously the metrics for the LTIP awards are being changed to give greater focus on long-term customer delivery and financial sustainability for 2020 LTIP awards later in the year. The performance targets are set in the context of the Company's forecasts and regulatory commitments, and are regarded as stretching targets.

The Committee may amend performance measures, weightings and targets, in the context of the Company's strategy, the impact of changes to the regulatory framework, accounting standards and any other relevant factors. The measurement of performance against performance targets and determination of incentive outcomes is at the Committee's discretion.

Adjustments may be made to reflect underlying financial or non-financial performance of the individual or the Company, consideration of overall performance in the round, and/or circumstances unforeseen or unexpected when the targets were set. When making this judgement, the Committee may take into account all factors deemed relevant.

Performance conditions may also be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate. If the performance conditions are varied or replaced, the amended conditions must, in the opinion of the Committee, be fair, reasonable and materially no less difficult than the original condition when set. The Committee would clearly disclose any material changes to performance measures.

Malus and clawback

Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct. In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period.

Operation of Executive share plans

The long-term incentive plan will be operated in accordance with the rules of the plan as approved. The deferred bonus awards will be governed by the rules adopted by the Board from time to time. Awards under any of the Company's share plans referred to in this report may be granted as conditional share awards, nil-cost options or in such other form that the Committee determines has the same economic effect, have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vest up to the time of vesting (or where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis, be settled in cash at the Committee's discretion (e.g. due to regulatory limitations).

Pre-existing commitments

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion available in connection with such payments) outside the policy set out above where the terms of the payment were agreed (i) before 2014 (the date the Company's first Directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the approved Directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Early vesting events

On a change of control or voluntary wind up of the Company, LTIP awards may vest to the extent determined by the Committee having regard to the performance of the Company and, unless the Committee determines otherwise, the period of time that has elapsed since grant. Deferred bonus awards may vest in full. Alternatively, participants may have the opportunity, or be required, to exchange their awards for equivalent awards in another company, although the Committee may decide in these circumstances to amend the performance conditions.

The Committee also has the discretion to treat any variation of the Company's share capital or any de-merger, special dividend or other transaction that may affect the current or future value of awards as an early vesting event on the same basis as a change of control.

Differences in remuneration policy for all employees

When setting remuneration for Executive Directors the Committee considers relevant information about pay and conditions in the Company. Senior executives and Executive Directors generally receive a higher proportion of their total pay in the form of variable remuneration and share awards. All administrative employees of the Company are entitled to base salary and pension provision including life assurance. In addition, all staff in South West Water are entitled to participate in annual bonus arrangements, the levels of which are based on the seniority and level of responsibility. Long-term incentive share awards are only available to senior executives and Executive Directors, and certain benefits are generally available only to more senior employees at management level and above.

Minor amendments to the remuneration policy

The Committee may make minor amendments to the policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

ANNUAL REPORT ON REMUNERATION

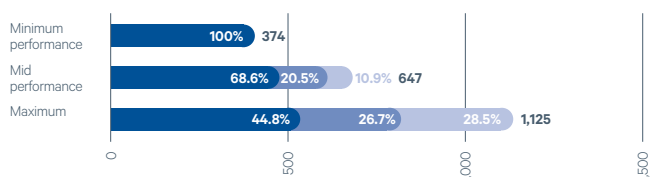
Future policy table – Non-Executive Directors

Fees	
Purpose and link to strategy	Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Company's strategy.
Operation	<p>Fees are set by the Board with the Chairman's fees being set by the Committee. The relevant Directors are not present at the meetings when their fees are being determined.</p> <p>Non-Executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as membership or chairmanship of a Committee or occupying the role of Senior Independent Director.</p> <p>In reviewing the fees, the Board, or Committee as appropriate, consider the level of fees payable to Non-Executive Directors in other companies of similar scale and complexity.</p>
Maximum	Total fees paid to Non-Executive Directors will remain within the limits stated in the Articles of Association.
Benefits	
Operation	<p>Where appropriate limited role-appropriate benefits may be provided.</p> <p>Expenses incurred in the performance of Non-Executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses).</p> <p>The Chairman's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of his duties.</p>
Maximum	None

Illustrations of applications of remuneration policy

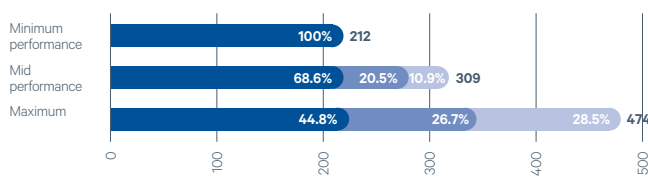
The total annual remuneration for the Executive Directors¹ that could result from the proposed remuneration policy, based on salaries for 2020/21 is shown below.

CHRIS LOUGHLIN



- Fixed remuneration
- Annual variable remuneration
- Long-term variable remuneration

LOUISE ROWE



- Fixed remuneration
- Annual variable remuneration
- Long-term variable remuneration

¹ Chris Loughlin is Managing Director of South West Water and is also a Director of Pennon Group plc. The schedule above represents 50% of his full remuneration is rechargeable to South West Water through group recharges. For further detail please see page 107 of the Pennon Group Annual Report 2020.

SCENARIO	ASSUMPTIONS
Minimum performance	Fixed pay, which constitutes base salary, pension-related benefits and benefits in kind. These values are made up of the salaries for 2020/21 (set out on page 102) and an estimate of the value of the benefits and pension-related benefits.
Mid performance	Fixed pay and 50% of the maximum annual bonus and 25% of the maximum long-term incentive award.
Maximum	Fixed pay and 100% of the annual bonus and long-term incentive awards.

No adjustments have been made for potential payment of dividends. Benefits from all-employee schemes have also been excluded.

As long-term share awards are granted in shares and subject to stretching performance criteria, the value of the award can vary significantly depending on the extent to which targets are achieved and the movement in the share price. For example, if the share price increased by 50% over the relevant vesting and holding period, the maximum values shown in the charts above would increase to £2,660,800 for the Managing Director and £541,635 for the Finance Director. Conversely if the share price was to fall by 50%, the maximum values shown in the charts above would reduce to £1,840,863 for the Managing Director and £406,467 for the Finance Director.

Approach to recruitment remuneration

When considering the appointment of Executive Directors, the Committee seeks to balance the need to offer remuneration to attract candidates of sufficient calibre to deliver the Company's strategy while remaining mindful of the need to pay no more than is necessary.

The Committee will appoint new Executive Directors with a package that is in line with the remuneration policy that has been agreed and is in place at the time. Base salary may be set at a higher or lower level than the previous incumbent.

Other elements of remuneration would be in line with the Company's policy set out in the future policy.

The Committee may determine for the first year of appointment that incentives may be subject to different weightings or objectives.

To facilitate recruitment, it may be necessary to recompense a new Executive Director for the expected value of remuneration arrangements forfeited on joining the Company (buyout awards). The Committee may make buyout awards in accordance with LR9.4.2 of the Listing Rules or utilising any other incentive plan operated from time to time. The Committee will ensure that any such award would at a maximum match the value of the awards granted by the previous employer and be made only where a Director is able to demonstrate that a loss has been incurred from joining the Company. Any buyout would take into account the terms of the arrangement forfeited, including in particular any performance conditions and the time over which they vest. The award would normally have time horizons which are in line with or greater than the awards forfeited. Where appropriate the exact nature of the buyout may be tailored based on the commercial circumstances at the time, provided that the value of the buyout remains comparable to arrangements forfeited.

For interim positions a cash supplement may be paid rather than salary (for example a Non-Executive Director taking on an executive function on a short-term basis).

Where an employee is promoted to the position of Executive Director (including if an Executive Director is appointed following an acquisition or merger), pre-existing awards and contractual commitments would be honoured in accordance with their established terms.

Non-Executive Directors' fees would be in line with the policy set out in the future policy table on page 89.

Dates of Directors' service contracts/letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the unexpired terms are shown below.

EXECUTIVE DIRECTORS	DATE OF SERVICE CONTRACT	NOTICE PERIOD
Louise Rowe*	1 February 2015	At age 65 (15 January 2047)
Chris Loughlin	1 January 2006	12 month notice period

* The Executive Directors' service contract is subject to 12 months' notice on either side.

NON-EXECUTIVE DIRECTORS	DATE OF LETTER OF APPOINTMENT	EXPIRY DATE OF APPOINTMENT
Sir John Parker	19 March 2015	31 July 2020
Lord Matthew Taylor	1 March 2010	31 July 2020
Jon Butterworth	28 September 2017	28 September 2020
Martin Hagen	1 September 2010	31 July 2020
Neil Cooper	1 April 2016	31 August 2020
Gill Rider	1 April 2016	31 August 2021

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain three months' notice period from either side.

All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

Policy on termination of service agreements and payment for loss of office

The Company's policy is that Executive Directors' service agreements are normally terminable on one year's notice or such other date as the parties agree.

There are no liquidated damages provisions for compensation on termination within Executive Directors' service agreements. Taking into account the circumstances of any termination, the Committee may determine that a payment in lieu of notice should be made. Any such payments would be restricted to salary and benefits (which may include pension-related benefits). In these circumstances, consideration would be given to phasing of payments and an individual's duty and opportunity to mitigate losses.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

The Company may meet ancillary costs, such as outplacement consultancy and/or reasonable legal costs if the Company terminates the Executive Director's service contract.

ANNUAL REPORT ON REMUNERATION CONTINUED

Policy on termination of service agreements and payment for loss of office continued

In line with the shareholder approved Remuneration Policy, the Remuneration Committee has approved good leaver status for Chris Loughlin. Chris will step down from the Board following the AGM. In line with his contractual terms, Chris will be entitled to a payment in lieu of salary and benefits for the balance of his 12-month notice period from 8 July. All share awards will be treated in accordance with the plan rules. Annual bonuses for 2020/21 and unvested awards under the Long-Term Incentive Plan will be subject to time pro-rating, with performance outcomes assessed at the end of the normal performance period. Chris will also be expected to retain sufficient interest in shares for two years following departure in order to meet the requirements of the new post-employment shareholding guideline.

Annual bonus	<p>Normally no bonus is payable unless an Executive Director is employed on the date of payment.</p> <p>In certain good leaver circumstances (death, disability, redundancy, retirement and any other circumstance at the Committee's discretion) a bonus may be payable. Any such bonus would be based on performance and pro-rated to reflect the period of service with performance normally assessed at the same time as other employees. The Committee retains discretion to adjust the timing and pro-rating of any award to take account of any prevailing exceptional circumstances which they consider would be fair to the Company and to the employee. Share deferral would not normally apply.</p>
Deferred shares	<p>Unvested awards would normally lapse upon cessation. In certain good leaver circumstances, unless the Committee determines otherwise, the restricted period is not automatically terminated on cessation of employment; rather, the restricted period continues to apply as if the leaver was still in employment. However, awards may be released to participants on an earlier date following cessation of employment at the discretion of the Committee.</p> <p>Good leaver circumstances are death, injury, ill-health, disability, redundancy, retirement, the sale of the individual's employing business or company out of the Pennon Group and any other circumstance at the Committee's discretion.</p>
Long-term incentive plan	<p>Any unvested awards would normally lapse upon cessation of the individual's employment within the Group. In certain good leaver circumstances, awards vest to the extent determined by the Committee taking into account the extent to which the performance conditions have been satisfied, the period of time elapsed between grant and the cessation of employment and such other factors as the Committee may deem relevant. Awards would normally vest on the original normal vesting date and be released at the end of the two-year holding period (unless the Committee determines awards should be subject to earlier vesting and release dates).</p> <p>If a participant dies, an award will, unless the Committee determines otherwise, vest and be released as soon as possible following the participant's death, taking into account the extent to which the performance conditions have been satisfied and the period of time elapsed since grant.</p> <p>Good leaver circumstances are death, ill health, injury, disability, redundancy, retirement, where the participant's employer is no longer a member of the Group, where the participant is employed in an undertaking which is transferred out of the Group, or for any other reason that the Committee determines.</p> <p>All awards would lapse if a participant was summarily dismissed.</p>
All employee awards	<p>Leavers will be treated in accordance with the HMRC approved rules.</p>
Other awards	<p>Where a buyout award is made on recruitment, leaver provisions would be determined at the time of award.</p>

Statement of consideration of employment conditions in the Company

In setting executive remuneration the Committee takes account of employment market conditions and the pay and benefits differentials across the Company. The Committee considers annual summary reports of employee remuneration and the terms and conditions of employment and has regard to these when considering remuneration for the Executive Directors and senior management. As part of this assessment the Committee considers various metrics including data on the ratio between Pennon Group CEO and all-employee pay, gender pay statistics and measures of employee engagement.

Engaging our workforce around remuneration is currently undertaken as part of the Great Place to Work survey. Additionally during 2020, we have undertaken our largest consultation around remuneration as part of our plans to modernise pension arrangements. Going forward, we plan to utilise our engagement forums to proactively talk about executive remuneration and how it aligns to wider company pay as part of our ongoing two-way communication with employees.

Implementation of the remuneration policy for 2020/21 – further details on performance metrics

ANNUAL BONUS

The proposed changes to the remuneration policy are set out on pages 87 to 89. This section sets out how the policy will be implemented for the year 2020/21.

Base salary	<p>Salaries are generally reviewed annually and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.</p> <p>Salaries for 2020/21 were increased by 1.5%, which was in line with or lower than increases for all employees: Louise Rowe – £168,960, Chris Loughlin – £273,312 (50% of Pennon Group recharge)</p>
Benefits	<p>No changes.</p> <p>Benefits currently include the provision of a company vehicle, fuel, health insurance and life assurance. Other benefits may be provided if the Committee considers it appropriate</p>
Pension-related benefits	<p>The rate for new hires in the future will be aligned with the rate available to the majority of employees at the time of appointment.</p> <p>Current annual pension contribution or cash allowance is 15% of salary for incumbent Executive Directors.</p>
Annual bonus	<p>The maximum bonus potential for the Finance Director is 75%² of base salary and for the Managing Director 125%² of base salary, with deferral of 50% of any bonus into shares for three years. Malus and clawback provisions apply.</p> <p>The annual bonus for 2020/21 will continue to be based on a combination of financial, operational and strategic objectives. In line with our regulatory requirements, a substantial portion of the bonus will be linked to customer-related goals. For the Managing Director, this is disclosed in the Pennon annual report. The bonus structure for the Finance Director has changed and for 2020/21 reflects:</p> <p>80% of allowed bonus is linked to specific customer delivery targets:</p> <ul style="list-style-type: none"> - 70% for five key performance metrics identified each year which reflect customers' top priorities (EPA and wastewater pollution incidents¹, internal sewer flooding, bathing water quality, leakage, interruptions to supply) with targets based on achieving Business Plan commitments. This element will only pay out if at least 90% of the basket of other ODIs made to customers are met in a year. - 10% for delivery of the 'New Deal' – Personal objectives linked to delivering the Board pledges including in year one the introduction of the WaterShare+ commitments. <p>20% linked to financial delivery targets that support financial sustainability:</p> <ul style="list-style-type: none"> - 10% profit before tax - 10% net debt/gearing <p>The detail of bonus targets are closely aligned to the strategy and are therefore considered to be commercially sensitive. Disclosure of targets will be provided on a retrospective basis in next year's Remuneration Report.</p> <p>Once finalised, we intend to publish the performance metrics and targets on our website.</p>
Long-term incentive plan (LTIP)	<p>Share awards vest subject to the achievement of specific performance conditions measured over three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period.</p> <p>The maximum annual award is 100% of base salary for the Finance Director and 150%³ of base salary for the Managing Director.</p> <p>The basis for the Finance Director has been updated and reflects: 1/3 Return on Regulated Equity (RoRE) (measure based on outperforming the Final Determination (FD) year on year metric), 1/3 sustainable dividend measures (Pennon), and 1/3 C-MeX (median moving to upper quartile).</p> <p>An underpin applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company. Malus and clawback provisions apply.</p>
Shareholding requirements	100% of salary for the Finance Director and 200% of salary for the Managing Director.
All-employees share plans	<p>Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees.</p> <p>The maximum is as prescribed under the relevant HMRC legislation governing the plans.</p>

¹ Will count as one measure.

² The % relates to the proportion of total allowed bonus.

³ The % relates to the proportion of allowed LTIP.

Remuneration approach for wider employees

Consistent with best practice, the Remuneration Committee spends considerable time on matters relating to remuneration arrangements in the wider organisation. Details of pay trends for the wider employee base provide important context when making decisions regarding remuneration for the Executive Directors as well as ensuring that consistent approaches are being adopted across the organisation.

Although the structure of pay varies at different levels in the organisation, the Company applies a consistent set of guiding principles. The structure of South West Water's approach to remuneration in the wider organisation is summarised in the table below:

Base salary	Salaries reflect the scope and responsibility of the role, as well as the skill and experience of the individual. The percentage change in salary for the Finance Director and Managing Director in 2020 was 1.5%, in line with the general increases across the Company.
Pension and benefits	All employees of South West Water are entitled to pension provision, including life assurance. Certain benefits are generally available only to more senior employees at management level and above. The Pennon Group also encourages share ownership among its employees by operating HM Revenue & Customs approved Sharesave scheme and Share Incentive Plan. All employees are eligible to participate in share plans, and there is a strong emphasis of employee buy-in and ownership.
Variable remuneration	All employees in Pennon Group plc and South West Water are entitled to participate in annual bonus arrangements. The maximum bonus levels are based on seniority and level of responsibility. Long-term incentive share awards are only available to senior executives and Executive Directors.

In response to the 2018 Corporate Governance Code, the Committee has also reviewed the level of information provided on pay matters in the wider organisation. Key activity in this regard included:

Pay dashboard	We have established a pay dashboard to help support the Committee in reviewing workforce remuneration and related policies: <ul style="list-style-type: none"> • The dashboard provides an overview of pay arrangements across the business and provides key statistics on pay in different areas of the business • The dashboard covers information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas of the business • The Committee intends to keep the content of the dashboard under review to ensure that it continues to provide suitable information for the Committee.
Gender pay gap	<ul style="list-style-type: none"> • From April 2018 South West Water Gender Pay Gap data has been included within a Pennon Group-wide publication • As a Company that operates in a traditionally non-diverse sector, we are well aware of the impact our own practices may have in relation to gender, as well as the broader issue of race and ethnicity • While we firmly believe there is still much to be done, our already established programme of measures means that Group-wide we have a mean average Gender Pay Gap of 5.2%, below the latest published UK average.

Employee engagement

Across South West Water we endorse the principle of strengthening opportunities for employees to engage in two-way dialogue at all levels.

We have welcomed the insight provided from the annual employee survey and the feedback from the Employee Engagement Forums. We have increased the frequency of Big Chat events during the year which provides employees the opportunity to dial-in to a Pennon Group-wide call with the senior executives to hear updates on key projects and participate in open question and answer sessions.

This feedback is essential as we continue to work with employees to make performance improvements across the Company and motivate and engage our employees. One of the key priority areas for discussion during the last year has been on reward and remuneration. Our Trust Index[®] of 62% saw a slight decline from the 2018 score of 63% but remains well above the national average of 56% for large employers. We have also conducted our largest ever consultation with employees regarding our proposals to modernise pension arrangements across the Company.

Non-Executive Director fees

Non-Executive Director fees for 2020/21 are set out below. They include a 1.5% increase for the Non-Executive Directors.

Director	Fees £000
Chairman, Sir John Parker	140
Lord Matthew Taylor	62
Jon Butterworth	58
Martin Hagen	58
Neil Cooper	35
Gill Rider	39

The Chairman, Sir John Parker, Neil Cooper and Gill Rider's fees are set by Pennon Group plc and 50% of these are charged to South West Water through group recharges. The table above outlines the 50% fee charges for 2020/21.

Single total figure of remuneration table (audited information)

	Base salary/fees (£000)		Benefits ³ (including Sharesave) (£000)		Annual bonus (cash bonus and deferred shares) (£000)		Long-term incentive plan (LTIP) ⁸ (£000)		Pension ⁹ (£000)		Total remuneration (£000)	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Executive Directors												
Louise Rowe ¹	166	163	18	16	89	119	170	57	25	24	468	379
Stephen Bird ²	21	248	–	26	–	236	–	109	4	44	25	663
Chris Loughlin ⁵	269	264	19	17	210	240	515	104	81	79	1,094	704
Non-Executive Directors												
Sir John Parker, Chairman ⁴	135	135	–	–	–	–	–	–	–	–	135	135
Lord Matthew Taylor, Senior Independent Director	61	60	–	–	–	–	–	–	–	–	61	60
Jon Butterworth	57	56	–	–	–	–	–	–	–	–	57	56
Martin Hagen	57	56	–	–	–	–	–	–	–	–	57	56
Martin Angle ^{4,6}	–	26	–	–	–	–	–	–	–	–	–	26
Neil Cooper ⁴	35	35	–	–	–	–	–	–	–	–	35	35
Gill Rider ⁴	39	39	–	–	–	–	–	–	–	–	39	39
Iain Evans ⁷	–	20	–	–	–	–	–	–	–	–	–	20

1 The Finance Director received a discretionary bonus for services to the Pennon Group during the year relating to the Strategic Review of 30% of salary. The Committee is satisfied that services provided did not reduce the effectiveness of the Director's provision of services to the Company.

2 Stephen Bird served as Managing Director until he passed away on 10 May 2019. The above table shows one month of remuneration.

3 Benefits comprise a car allowance, fuel allowance and medical insurance.

4 These Directors are also Directors of Pennon Group plc. The disclosures above reflect 50% of their full remuneration which is rechargeable to South West Water through group recharges. The full single total figure of remuneration tables are shown on page 107 of the Pennon Group plc Annual Report and Accounts 2020.

5 Chris Loughlin in his capacity as Managing Director of South West Water is an Executive Director in 2019/20. The disclosure above reflects 50% of his remuneration which is rechargeable to South West Water through group recharges. The full single total figure of remuneration tables are shown on page 107 of the Pennon Group plc Annual Report and Accounts 2020.

6 Retired from the Board on 31 December 2018.

7 Iain Evans was appointed to the Board on 1 September 2018 and resigned on 27 March 2019.

8 For 2019/20, the 2017/18 LTIP has been valued based on the average Pennon share price during the three-month period to March 2020 of 1,093.66p and a vesting outcome of 86.6%, as referred to on page 97 together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, 26.6% relates to share price appreciation over the performance period. The Committee did not exercise any discretion in relation to share price changes.

The 2016/17 LTIP value for 2018/19 reflects the share price at the date of vesting of 741.2p, a vesting outcome of 32% and an additional 4.7% equivalent to the value of accrued dividends over the three-year performance period. The Committee did not exercise any discretion in relation to share price changes. Both LTIP awards are subject to a two-year holding period.

9 See page 97 for further information.

ANNUAL REPORT ON REMUNERATION CONTINUED

Annual bonus outturn for 2019/20 (notes to the single figure table)

The performance targets set and the performance achieved in respect of the annual bonus for 2019/20 in respect of each Executive Director is set out below.

Louise Rowe

Measure	Threshold	Target	Maximum	Actual outturn	Bonus outturn
Group financial measures – 45% weighting					
Underlying profit before tax (37.5% weighting)	£277m	£283m	£297m	£287.6m	64%
RORE (7.5% weighting)	8%	9%	11%	11.8%	100%

Customer and operational measures – 20% weighting

Water metrics	Target	Actual outturn	Target achieved	Bonus outturn	
Customer measure	Upper quartile	Median	No		
Bathing water quality	0 beaches fail	0 beaches failed	Yes		
Leakage (megalitres per day/MI/d)	84 MI/d	84 MI/d	Yes		
Wastewater pollution incidents					
Wastewater pollution incidents (Cat 1-2)	0	1	No	70%	
Wastewater pollution incidents (Cat 3-4)	198	286			
Average duration of interruptions to supply	0.161 hours/prop	0.158 hours/prop	Yes		
Water and wastewater asset reliability	Stable	Stable	Yes		

Personal objectives – 20% weighting

Personal objectives for 2019/20 were aligned to the delivery of strategic objectives, including:

- the personal leadership and embedding of the Group's health and safety programme HomeSafe
- continued momentum around a number of Board priorities including the PR19 programme.

73%

The Finance Director received a discretionary bonus for services to the Pennon Group during the year relating to the Strategic Review of 30% of salary. The Committee is satisfied that services provided did not reduce the effectiveness of the Director's provision of services to the Company.

Chris Loughlin is Managing Director of South West Water and is also a Director of Pennon Group plc. His remuneration is based on the metrics above relating to South West Water Limited as well as additional metrics relating to the performance of other Pennon Group companies in his capacity as Chief Executive Officer of Pennon Group. Details of his performance and remuneration can be found on pages 102 to 113 of the Pennon Group annual report 2020.

Summary of bonus outcome

Measure	Weighting	Finance Director outturn
Group financial measures	45%	31.7%
Customer and operational measures	15%	10.5%
Individual objectives	15%	11.0%
Total outturn	75%	53.2%

Long-term incentive plan outturn for 2019/20

The awards in the single figure table relate to the 2017/18 share awards granted on 25 August 2017, which are due to vest on 24 August 2020.

The 2017/18 share awards were subject to the satisfaction of EPS growth, a sustainable dividend measure and return on capital employed (RoCE) performance conditions. These conditions were set at the time that the awards were granted.

	Threshold (25% of maximum vests)	Maximum (100% of maximum vests)	Forecasted achievement	Forecasted vesting
EPS growth (40% of award)	6% p.a	10% p.a	9.5% p.a	90.5%
Sustainable dividend measure (dividend growth and dividend cover) (40% of award)	2.6x	3.6x	3.4x	82.9%
RoCE (average) 1 (20% of award)	8%	10%	9.62%	85.9%
Total				86.6%

1 Average of opening and closing capital employed.

For below threshold performance for either performance condition, 0% vests in respect of that performance condition.

Vesting of the award is subject to an 'underpin' relating to overall Company performance including environmental, social and governance factors and safety performance, as well as financial performance. The Committee has determined, to the date of this report, that this underpin has been satisfied.

If awards were to vest, they would be subject to a two-year holding period during which clawback may be applied if the Committee considers it appropriate in certain circumstances. The holding period ends on 24 August 2022.

Retirement benefits and entitlements (audited information)

Details of Directors' pension entitlements and pension related benefits during the year are as follows:

	Contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year	Normal retirement age and date (for pension purposes)
Louise Rowe ¹	13	12	25	65 (15 January 2047)
Chris Loughlin ²	–	81	81	67 (20 August 2019)

1 Louise Rowe is a member of Pennon Group's defined contribution arrangement and received an overall pension benefit from the Company equivalent to 15% of her salary.

2 Chris Loughlin is not a member of any of the Group's pension schemes and receives a sum in lieu of entitlement of 30% of salary. He is Managing Director of South West Water and is also a Director of Pennon Group plc. 50% of his full remuneration is rechargeable to South West Water through group recharges. For further detail please see page 102. of the Pennon Group Annual Report 2020.

No additional benefits will become receivable by a Director in the event that the Director retires early.

OUTSIDE APPOINTMENTS

Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Chris Loughlin was appointed as a Non-Executive Director of Mears Group plc on 17 August 2019. No other outside Company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

Share award and shareholding disclosures

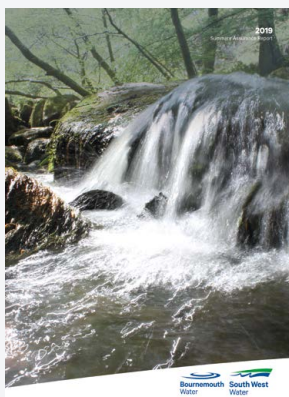
Details of Directors' shareholdings are included in South West Water's Annual Report and Financial Statements on pages 110 to 113.

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/report2020 from the end of July 2020) provides an update in respect of all significant areas for assurance identified in our Assurance Plan (available at www.southwestwater.co.uk/assuranceplan2020).



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 2020.

Visit: www.southwestwater.co.uk/report2020

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:

1st Line of Defence

Management

- performance reviews
- local quality control
- 'sense checking' annual certification and 'sign off' of submitted data.

2nd Line of Defence

Policy setting and compliance checking

- business management systems
- internal audits
- policies and culture (e.g. whistle blowing)
- QA and ISO internal reviews
- risk & compliance internal reviews.

3rd Line of Defence

External scrutiny

- Group independent internal audit
- financial audit
- technical audit
- quality regulators (including ISO external reviews)
- business management systems external audits
- other external assurance providers.

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 PR19 Business Plan, tariffs/charges submissions and Annual Performance Report 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.

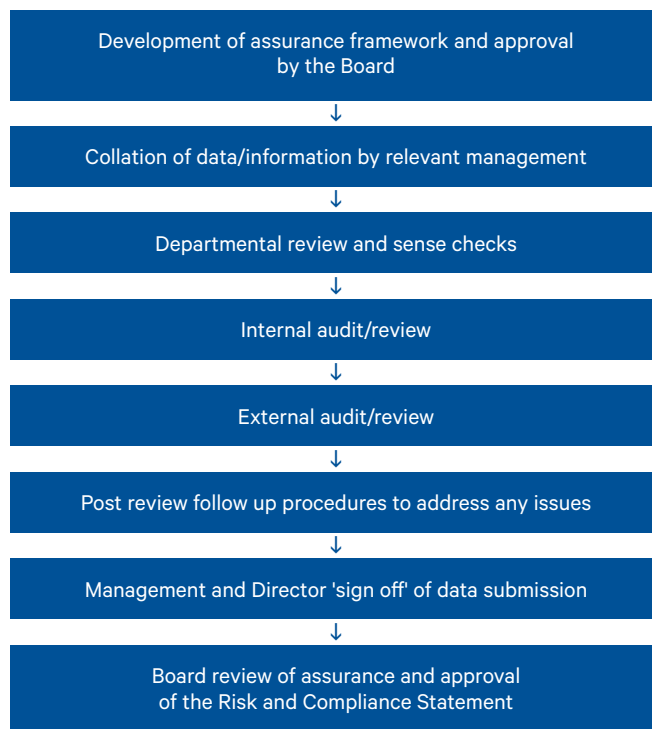
Robust feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are followed up to ensure that any changes required or follow up work is completed as appropriate.

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 confirms in its opinion that assurance provision, governance and internal systems of control have been sufficient.

South West Water publishes a range of documents which provide key information which customers and other stakeholders require. We publish performance information in this Annual Performance Report and Regulatory Reporting as well as in summary formats. In this section of the report we summarise the assurance we perform, however further detail on the assurance we perform can be found in related documents.

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



RISKS, STRENGTHS AND WEAKNESSES STATEMENT

This statement sets out our risks, strengths and weaknesses to the information that we publish following consultation with customers and other stakeholders.



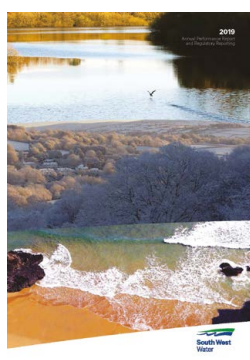
DRAFT ASSURANCE PLAN

The draft assurance plan lays out areas we have identified as key areas for assurance (including as a result of the risks, strengths and weaknesses consultation).



FINAL ASSURANCE PLAN

Following consultation with customers, employees and other stakeholders the final assurance plan updates the draft assurance plan to address feedback received.



ANNUAL PERFORMANCE REPORT AND REGULATORY REPORTING

The Annual Performance Report lays out our performance against the regulatory targets we have committed to achieve. Our Regulatory Reporting lays out key financial and non financial performance for the year.

ASSURANCE CONTINUED



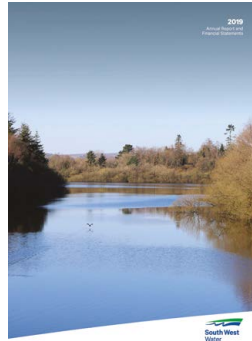
SUMMARY PERFORMANCE REPORTS

We publish summary performance reports for each of the South West Water and Bournemouth Water operational areas; these provide a shorter summary of performance against each of our regulatory targets.



SUMMARY ASSURANCE REPORT

Our summary assurance report (incorporating our 'Data Assurance Summary') provides an update on the assurance which we have performed in line with this plan.



ANNUAL REPORT AND FINANCIAL STATEMENTS

Our annual report and financial statements are published in line with Companies Act requirements and as well as reporting on overall performance, provide a more detailed review of our financial performance during the year.



OUR WEBSITES

The documents listed here are published on our websites (southwestwater.co.uk and bournemouthwater.co.uk) alongside other useful documents – such as our charges to customers for the year.



BUSINESS PLAN 2020-25

In September 2018 we published our Business Plan for 2020-25 'The New Deal', which was given fast-track status by Ofwat. For further information on South West Water's New Deal visit southwestwater.co.uk/newdeal.

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 and links to their reports is included on pages 102 to 103.

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 2K 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 130 to 131. 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' 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.

REGULATORY REPORTING – COST ASSESSMENT TABLES

Cost assessment related tables in section 4 are included within the scope of the Regulatory Reporting significant assurance area last year and we continue to do so. To ensure consistency of data and thorough audit process, EY are now used across all financial tables within the Regulatory Reporting, whether part of their statutory audit engagement or not.

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 102 to 103. Jacobs' report is shown on pages 132 to 134. 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.

ASSURANCE CONTINUED

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

SECTION 1		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
1A	Income Statement	EY	Regulatory Audit Opinion	Pages 136 to 137	Pages 130 to 131
1B	Statement of comprehensive income	EY	Regulatory Audit Opinion	Page 137	Pages 130 to 131
1C	Statement of financial position	EY	Regulatory Audit Opinion	Pages 138 to 139	Pages 130 to 131
1D	Statement of cash flows	EY	Regulatory Audit Opinion	Page 140	Pages 130 to 131
1E	Net debt analysis at 31 March 2020	EY	Regulatory Audit Opinion	Page 141	Pages 130 to 131
1F	Cumulative Financial Flows for the 5 years ended 31 March 2020	EY	Regulatory Audit Opinion	Pages 142 to 143	Pages 130 to 131

SECTION 2		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
2A	Segmental income statement	EY	Regulatory Audit Opinion	Page 144	Pages 130 to 131
2B	Totex analysis – wholesale water and wastewater	EY	Regulatory Audit Opinion	Page 145	Pages 130 to 131
2C	Operating cost analysis – retail	EY	Regulatory Audit Opinion	Page 146	Pages 130 to 131
2D	Historical cost analysis of fixed assets wholesale and retail	EY	Regulatory Audit Opinion	Page 147	Pages 130 to 131
2E	Analysis of capital contributions and land sales – wholesale	EY	Regulatory Audit Opinion	Pages 148 to 149	Pages 130 to 131
2F	Household – revenues by customer type ¹	EY	Regulatory Audit Opinion	Page 149	Pages 130 to 131
2G	Non-household water – revenues by customer type	EY	Regulatory Audit Opinion	Page 150	Pages 130 to 131
2H	Non-household wastewater – revenues by customer type	EY	Regulatory Audit Opinion	Page 151	Pages 130 to 131
2I	Revenue analysis & wholesale control reconciliation ¹	EY	Regulatory Audit Opinion	Pages 152 to 154	Pages 130 to 131
2J	Infrastructure network reinforcement costs	EY	Regulatory Audit Opinion	Page 155	Pages 130 to 131
2K	New connections reconciliation	EY	Regulatory Audit Opinion	Page 155	Pages 130 to 131

SECTION 3		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE
3A	Outcome performance table ¹	Jacobs ⁴	Technical audit – agreed upon procedures	Pages 154 to 159
3B	Sub-measure performance table ¹	Jacobs	Technical audit – agreed upon procedures	Page 160
3C	AIM table ²	Jacobs ²	N/a	Page 160
3D	SIM table ¹	Jacobs	Technical audit – agreed upon procedures	Page 161
3S	Shadow reporting tables ³	Jacobs	Technical audit – agreed upon procedures	Page 162

SECTION 4		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
4A	Non-financial information ¹	Jacobs	Technical audit – agreed upon procedures	Page 163	Pages 132 to 134
4B	Wholesale totex analysis	EY	Financial agreed upon procedures	Page 164	Pages 130 to 131
4C	Forecast impact of performance on RCV	EY	Financial agreed upon procedures	Page 165	Pages 130 to 131
4D	Wholesale totex analysis – water	EY ⁵	Financial agreed upon procedures	Pages 166 to 167	Pages 130 to 131
4E	Wholesale totex analysis – wastewater	EY ⁵	Financial agreed upon procedures	Pages 168 to 169	Pages 130 to 131
4F	Operating cost analysis – household retail	EY	Financial agreed upon procedures	Page 170	Pages 130 to 131
4G	Wholesale current cost financial performance	EY	Financial agreed upon procedures	Page 171	Pages 130 to 131
4H	Financial metrics	EY	Financial agreed upon procedures	Pages 172 to 173	Pages 130 to 131
4I	Financial derivatives	EY	Financial agreed upon procedures	Page 173	Pages 130 to 131
4J – 4W	Cost assessment tables	EY Jacobs	Financial agreed upon procedures (excl 4P-4U) Technical audit – agreed upon procedures	Page 174 Pages 174 to 195	Pages 130 to 131 Pages 132 to 134

OTHER ANNUAL PERFORMANCE REPORT INFORMATION		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
A	Long-term resilience & viability statement	EY	Financial agreed upon procedures ⁶	Pages 112 to 114	
B	Technical operational performance data included within pages 12 to 59	Jacobs	Technical audit – agreed upon procedures	N/a	Pages 132 to 134
C	Annual performance information provided for the Discover Water website	Jacobs	Technical audit – agreed upon procedures	N/a	Report provided to Water UK

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 93).

5 Unit cost metrics information on pages 123 to 124 are based upon non-financial information included within the scope of Jacob's technical audit – agreed upon procedures. The calculations based upon this non-financial information are within the scope of EY's financial agreed upon procedures.

6 In addition to statutory audit requirements.

Ofwat Board leadership, transparency and governance – principles (January 2019)

From 1 April 2019, revised 'Board leadership, transparency and governance' principles have applied to South West Water. These were published following consultation by Ofwat in January 2019. The following table details how we comply with these principles, where we have taken additional steps during the year to comply (or indicates elsewhere in this Annual Performance Report where this detail is provided).

OBJECTIVE 2.1 PURPOSE, VALUES AND CULTURE

The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Provision i.

The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.

Our purpose is laid out in the 'Our Business Model' section. This is developed to align with our regulatory business plans which are themselves based around the eight outcomes which our customers and other stakeholders have identified as their top priorities.

Provision ii.

The board makes sure that the company's strategy, values and culture are consistent with its purpose.

'Our Business Model' lays out our strategy, values and culture and have been developed in line with our purpose and the linkage is outlined in that section.

Provision iii.

The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.

All employees are provided with our Code of Conduct which outlines the behaviours expected in line with the values and culture which we expect.

An independent 'Speak Up' whistleblowing process is made available to all staff to raise any relevant matters. These are reviewed by the Head of Legal Compliance and summaries of matters raised are then reviewed by the Board and corrective actions to any matter requiring correction are also reviewed.

Further details are provided on pages 67 and 68.

Provision iv.

Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.

The activities of the Board are detailed on page 66 and linked to strategic focus areas on page 69. Page 68 details continued employee engagement.

The Risk and Compliance Statement on page 109 focuses on how the Company has set its aspirations and performed for all those it serves.

OBJECTIVE 2.2 STANDALONE REGULATED COMPANY

The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

Provision i.

The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.

The Board leads the Company both in terms of accountability and legitimacy and is responsible for the setting of and ownership of the Company's strategy together with the ability to make ongoing strategic and sustainable decisions in the interests of the Company for the long term.

Certain matters are reserved for the Board of Pennon Group, the parent company (including those which have a significant potential financial impact upon the parent company).

These are detailed on page 66 alongside detail of the operation of the South West Water Board. We believe this approach is compatible with this provision.

Provision ii.

Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.

Pages 74 to 78 detail the operation of South West Water's Audit, Remuneration, Nomination and Sustainability Committees, each of which reports into the Board.

Other than in areas identified in this report as reserved for the parent company, final decisions are made by South West Water's Board and Committees.

Provision iii.

The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.

The role of the Board and updates on its activity during the year is detailed on pages 60 to 70 and it is fully focused on the activities of South West Water.

The approach to conflicts of interest including in respect of third parties is detailed on page 67.

OBJECTIVE 2.3 BOARD LEADERSHIP AND TRANSPARENCY

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:

<p>Provision i. An explanation of group structure;</p>	See page 61.
<p>Provision ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);</p>	See pages 127 to 128.
<p>Provision iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;</p>	See pages Risk Report, pages 122 to 126.
<p>Provision iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and</p>	These are included in the summary of Board activity on page 60 to 73 and within the reports of the respective committees on pages 74 to 83.
<p>Provision v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.</p>	See pages 84 to 91.

OBJECTIVE 2.4 BOARD STRUCTURE AND EFFECTIVENESS

The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

<p>Provision i. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.</p>	See pages 60 to 83 for summaries of the Board and Committees.
<p>Provision ii. Independent non-executive directors are the largest single group on the board.</p>	See pages 62 to 64. The majority of the Board is comprised of independent Non-Executive Directors (six of a total of eight Directors, including the Chair). Of the Independent Non-Executive Directors, half of these are non Directors of the parent company, Pennon Group.
<p>Provision iii. The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.</p>	<p>The Chair is independent of management, although is also the Chair of the parent company Pennon Group plc. Further details in this regard are provided on page 60.</p> <p>There is a clear and explicit division of responsibilities between the Board and Executive, and a summary of their roles is provided on pages 60 to 73.</p>
<p>Provision iv. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.</p>	See page 82.
<p>Provision v. There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.</p>	See page 82.

ASSURANCE CONTINUED

Ofwat Board leadership, transparency and governance – principles (January 2019) continued

OBJECTIVE 2.4 BOARD STRUCTURE AND EFFECTIVENESS CONTINUED

Provision vi.

To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.

No new Non-Executive Director appointments have been made during the year, however where these occur in future, South West Water will comply with this provision.

Provision vii.

There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.

Summaries of Committee membership and attendance is provided in pages 74 to 83, with a summary of all committees on page 71. Each of these committees has a majority of Independent Non-Executive members.

Other items

Many of our required annual disclosures are contained within this Annual Performance Report and Regulatory Reporting, however some are contained in our other related publications:

DISCLOSURE	LOCATION
Statement on directors' pay	See page 127 and detailed disclosures in the Remuneration Report
Statement on disclosure of information to auditors	See page 111
Dividend policy	See pages 127 to 128
Accounting policy note for price control units	See page 128
Revenue recognition note	See pages 128 to 129
Capitalisation policy note	See page 129
Bad debt policy note	See page 129
Tax strategy for the appointed business	See page 50
Long-term viability statement	See page 112
RORE summary	See page 53
Narrative disclosures on operational performance (and table 3A metrics)	See pages 10 to 47
Totex – difference between actual and allowed totex in table 4B	See page 49
Accounting Methodology Statement	See pages 127 to 129

WaterShare Panel/WaterFuture Customer Panel

The Panel have protected customers' interests throughout the 2015-20 regulatory period by providing independent review of the operation of the 'WaterShare' performance sharing mechanism. The Panel have approved the Company's proposals for sharing customer benefit and the timing of sharing any net gain, and are pleased to note that customer benefits totalling £139m have been accrued during the regulatory period. Benefits from 2015-20 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.

CUSTOMER	WATERSHARE	SHAREHOLDER
Cumulative to 2019/20		Cumulative to 2019/20
£m		£m
103	Net totex savings	139
13	ODIs	13
23	Other items¹	–
139	Total Value Benefit	152

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

During the last five years we have seen significant improvements being made in a number of the Company's performance commitments. Particular highlights include the reductions in taste and odour contacts, duration of supply interruptions, external flooding incidents, burst mains and sewer blockages. The Company has also increased the number of customers supported by water poverty initiatives, and made significant improvements to its customer service 'SIM' measure – performance which the Panel hope to see continue under Ofwat's new 'C-MeX' measure from 2020.

The Panel have maintained their challenge on pollution incidents, an area in which the Company has fallen short of its commitments. Pollution performance remains one of our customers' top three priorities for the Company, so we are pleased that it has been reflected in the Company's 2020-25 Business Plan – both in the Company's bespoke Environmental Performance Assessment commitment and the industry-wide measure of pollution incidents.

Based upon customer preferences evidenced from customer research, the Panel agreed that deferred benefits should be passed back in 2020 under the Company's WaterShare+ scheme. Customers will be offered a choice in how they receive their portion of the fund and will be able to claim either a cash rebate, a bill reduction or shares in the South West Water's parent company.

The Panel will also oversee and support the transition to a new independent WaterShare+ customer panel, which will replace the current Panel and ensure that customers' interests are protected and the Company continues to be held to account for its delivery against performance commitments for 2020-25.

More information on WaterShare+ can be found at www.southwestwater.co.uk/watershareplus.

I am pleased to report that throughout our engagement, 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. Minutes of all of our meetings are recorded and published for customers to see on the Company's website: www.southwestwater.co.uk/waterfuture.

Finally, as Chair I'd like to take this opportunity to thank my fellow Panel members past and present for their engagement, robust challenge of the Company and representations on behalf of customers.



Nick Buckland OBE

Chair of the WaterShare Panel
and WaterFuture Customer Panel



ASSURANCE CONTINUED

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 2015-20. As Chair of the Customer View Group I have ensured that the Group meets four times each year and, comprising local customer and business representatives, along with industry regulators, delivers on the key objectives outlined within our terms of reference. There has been little change to the Group's membership, with good attendance throughout.

During the 2015-20 regulatory period, the Customer View Group oversaw the merger of Bournemouth Water with South West Water. During what could have been a disruptive time for customers, I was pleased to observe no adverse impact – in fact Bournemouth Water maintained its excellent record under Ofwat's customer service 'SIM' measure. Customers of both companies appear to have benefited from the merger, with increased efficiency and mutual best practice in customer service shared.

An area of interest and challenge for the Customer View Group has been customer complaints, which have been transformed during this regulatory period; in 2015/16 CCW were critical of the huge increase in written complaints reported for Bournemouth Water, whilst the Company is now amongst the best performers in the industry.

The majority of Bournemouth Water's financial penalties or rewards for 2015-20 accrue at the end of the period. I note that the net position is £1.63m of reward – which means that customers have benefited from improvements in services.

Unfortunately, the Company has been unable to meet its commitment on community contribution in the form of volunteer and charity work. However, the Company has made a c. £15k charitable contribution in lieu of this shortfall, and the Customer View Group has chosen Community Action Network as the beneficiary to work with some 12 local charities – ensuring that the local community and environment will benefit, as intended under this measure.

Turning to the future, the combined Business Plan for 2020-25 includes two major schemes to build new water treatment works, replacing Knapp Mill and Alderney. This will represent a significant investment in services for Bournemouth customers, deploying innovative treatment technologies used at South West Water's pioneering Mayflower site, made possible as a result of the merger.

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: www.bournemouthwater.co.uk/customerview.

The end of this regulatory period also marks the end of the Customer View Group's (CVG) term; I would like to record my thanks and appreciation to all members of CVG for their attention, attendance and for robustly challenging the Company where necessary.

From 2020/21 customers' interests will be overseen by the new WaterShare+ Panel, which will allow customers to attend meetings held across Cornwall, Devon and Bournemouth.

Bournemouth customers will also benefit from the innovative WaterShare performance sharing mechanism, with eligible customers receiving their rebate in 2020. More information on WaterShare+ is available on <http://www.bournemouthwater.co.uk/watershareplus.aspx>.



Richard Lacey

Chair of the Customer View Group



RISK AND COMPLIANCE STATEMENT

Governance

The 2019/20 South West Water Annual Performance Report and Regulatory Reporting highlights Company performance for the fifth and final year of the five-year 'K6' regulatory period (2015 to 2020) and provides detail on operational performance metrics throughout the period.

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 2019/20.

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 2019/20 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.

The Members of the Board are considered 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 2018 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 page 72.

During 2019/20 and in accordance with the governance framework, and as approved by Ofwat, the South West Water Board convened 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 60 to 65. The regulatory ring-fence around the South West Water business is protected through efficient and transparent decision making.

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 65 to 67 of this report and are complemented by details in the Annual Report and Financial Statements. These, together with the risk management and internal controls frameworks form an effective and robust governance structure.

The South West Water Board, which included the Chairman, the Managing Director (who is also the Pennon CEO), two of the Pennon Non-Executive Directors as well as three South West Water only Non-Executive Directors, convened before each Pennon Board meeting and considered South West Water strategy, performance and regulatory planning.

Susan Davy, Pennon Group Chief Financial Officer, as well as Iain Evans and Claire Ighodaro, Pennon Group Non-Executive Directors, also attended the South West Water Board.

Following Pennon's sale of Viridor which completed on 8 July, the structure of the Pennon Group significantly changes with the continuing Group focused on South West Water and Pennon Water Services.

Sir John Parker, the Chairman of Pennon and South West Water and Chris Loughlin, the CEO of the Group and Managing Director of South West Water will not be seeking re-election on 31 July 2020. In addition, Lord Matthew Taylor and Martin Hagen who have both served on the Board for South West Water for 10 years will also not seek re-election.

The Board's internal succession plan has been enacted with the appointment of Susan Davy to CEO and Gill Rider to the role of Chair. Pennon and South West Water Boards will have consistent Chair and Non-Executive Director memberships in future given the revised focus of the Group.

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 certifications. South West Water currently holds the following 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 systems of internal control were in place to meet the Company's obligations for the 12 month period to 31 March 2020 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 12 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.

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:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- 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.

Section 172

We have complied with the requirements of S172 and our full statement can be found on page 118 of the South West Water Annual Report.

Licence of Appointment – statement to Condition P: Regulatory ring-fence

This certificate is provided in line with our requirement to do so under our licence of operation. 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 it will have available to it sufficient:

- financial resources and facilities to enable it to carry out the Regulated Activities, for at least the 12-month period following the date on which the certificate is submitted
- management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the 12-month period following the date on which the certificate is submitted
- rights and resources other than financial resources.

The Board also confirms that all contracts entered into between South West Water (SWW) and any associated companies include the necessary provisions and requirements in respect of the standard of service to be supplied to SWW, to ensure that SWW is able to carry out the Regulated Activities.

Statement to Condition P 26

It is also the opinion of the Board that South West Water would be able to maintain an Issuer Credit Rating which is an Investment Grade Rating.

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:

- financial resources currently available to the business
- non-financial rights and resources available to the business and management
- key financial metrics including: adjusted interest cover; net debt/RCV; 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
- contracts which the Company has entered into
- the Company's risk profile
- financial policies, including dividend policy
- stability and predictability of the regulatory environment.

South West Water's approach to producing a quality certificate is to perform an internal assessment which is externally assured and an independent credit assessment with a recognised credit rating agency.

SWW has performed a synthetic rating analysis utilising all relevant financial ratios aligned to specific credit rating guidelines and benchmarked against investment grade criteria. This looks back to the most recent financial year and future years to the end of 2030, in line with SWW's approach to assessing viability.

The forecast is based on the PR19 Final Determination for 2020-25 including SWW's view on potential outperformance and SWW's internal strategic plan through to 2030.

The assessment is then stress tested by analysing the potential impact of principal risks, the combined Ofwat scenario and for the 2020 certificate an additional test for any potential impact arising from the COVID-19 pandemic. The source data and calculations are subject to additional external assurance.

The Board believes that this is an appropriate approach to complying with Condition P due to the dual approach in making internal and external assessments, by considering a long-term time frame aligned with viability assessment, including stringent stress testing and due to the external assurance obtained.

The assessments conclude that SWW would be able to achieve an investment grade at least 3 levels above investment grade. Supporting leverage and coverage metrics and their calculations for 2019/20 are shown on page 201.

Long-term resilience and viability statement

South West Water is a long-term business characterised by a multi-year investment programme, with the associated revenue stream.

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 up to the end of 2030. The assessment has been made with reference to the Company's current position and prospects, including the ongoing COVID-19 pandemic, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 113 to 124 of the Risk Report.

The Company's strategic business plan, including consideration of the ongoing COVID-19 pandemic, principal risks and Ofwat viability scenarios are the 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 the Company's viability.

In performing this stress testing the following factors have been considered:

- principal risks have been ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact
- Ofwat viability scenarios have been modelled and monetised
- a near-term downside impact of COVID-19 has been modelled.

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
Principal Risk P: Failure of IT systems, management and protection including cyber risks.	Cyber security
Principal Risk E: Non-compliance or occurrence of avoidable health and safety incident.	Health & safety
Principal Risk I: Macro-economic risks impacting commodity and power prices.	Energy management
Principal Risk C: Compliance with laws and regulations.	General Data Protection Regulation (GDPR)
Principal Risk A: Changes in Government Policy ¹ .	Brexit readiness
Principal Risk N: Non-delivery of regulatory outcomes and performance commitments.	ODI preparedness
Principal Risk L: Business interruption or significant operational failure/incidents.	Dam safety
Principal Risk L: Business interruption or significant operational failure/incidents	Resilience and business continuity

¹ The impacts of Brexit have been considered individually for each Principal Risk.

All principal risks, including the net risk assessment and mitigations and alongside the risk appetite are reported on pages 115 to 118. The risk level is set based on a number of factors including financial and reputational impacts as well as the level of management resources and intervention needed to mitigate these risks. Historical impacts as well as future estimates are considered when making the financial assessment (for example the level of actual costs associated with non-recovery of customer debt in recent years as well as future assessments of cash collections performance).

The risk trends are considered when reflecting the likelihood of this risk arising.

In stress testing the Company's Business Plan it was determined that none of the individual principal risks would in isolation, or in aggregate, compromise the Company's viability.

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:

- 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.

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

- 10% totex underperformance in each of the years to the end of 2030
- ODI penalty of 1.5% in each of the years to the end of 2030
- One-off financial penalty of 1% of revenue.

These scenarios in isolation and the combination noted above did not compromise the viability of South West Water over the assessment period to 2030.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the assessment period has been modelled. This scenario builds on the factors above and additionally assumes a more severe COVID-19 downside scenario including a lower Retail Price Index (RPI) and an assumption that the Ofwat combined scenario and principal risks impact every year up to 2030.

The Board considered the likelihood of this scenario on the Company's viability over the period to 2030 and noted the potential mitigating actions which could include a reduction in capital and operational spend and dividends, concluding the Company could remain viable.

In making its assessment of the Company's viability, the Directors have taken account of the Company's robust capital solvency position, the Company's latest assessment of the COVID-19 pandemic, 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 page 74, the Directors reviewed and discussed the process undertaken by management and also reviewed the results of the stress testing performed.

Forward looking statements

This strategic report, consisting of pages 3 to 33 of the Annual Report and financial statements, contains forward-looking statements regarding the financial position; results of operations; cash flows; dividends; financing plans; business strategies; operating efficiencies; capital and other expenditures; competitive positions; growth opportunities; plans and objectives of management; and other matters. These forward-looking statements including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to South West Water, wherever they occur in this strategic report, are necessarily based on assumptions reflecting the views of South West Water as appropriate.

They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in the light of relevant factors, including those set out in this section on principal risks and uncertainties.

STRATEGIC PLAN

South West Water maintains a ten-year strategic plan, which is updated every six months and reviewed by the Board. This is maintained alongside updated long-term interest rates and inflation forecasts. During the year a full update of the capital plan to 2030 was also prepared and the Company has assessed that this is financeable and that there are no significant doubts over this period concerning the Company's viability.

Macro economic cycles are also considered by the Group Risk Forum and Company Risk and Assurance Forum in respect of the Company's risk assessments.

Other considerations

In making the assessment, the Directors have taken account of the Company's robust capital solvency position, its ability to raise new finance and key potential mitigating actions on other 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.

South West Water does not have any intercompany financing arrangements outside of those directly with its wholly owned subsidiary South West Water Finance Plc. There are no Group financing arrangements except for £200m facility available from Pennon which can be drawn on a short-term basis. Therefore we have not included any intercompany financing scenarios.

Summary of long-term resilience and viability

From the assessments undertaken above, whilst the scenarios which have a significant one-off impact may challenge the financial ratios in one individual year, these are deemed to be remote in terms of likelihood and therefore do not challenge the overall viability or long-term financial resilience of South West Water.

A number of the scenarios do not take account of mitigations which the Company would implement if such scenarios arose (for example continued totex underperformance would not be accepted and additional efficiency plans would be targeted to mitigate cost risks). This further strengthens the expectations of financial resilience over the period.

The Board have not identified any other significant plausible scenarios relating to the long-term viability of other companies within the Group (including of the parent company), which would preclude its assessment of the long-term viability of the ring-fenced South West Water Appointee business.

In addition, in extreme circumstances South West Water would be able to defer dividend payments to support its long-term viability if required. The Directors have therefore 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.

Mitigations which would be applied if the remote combined scenario occurred include continued totex underperformance not being accepted and additional efficiency plans which would be targeted to mitigate cost risks.

Licence of Appointment – statement relating to Condition F

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 73 to 79 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.

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 12 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 12 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 2020 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 2020 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 South West Water has complied with this Code.

RISK AND COMPLIANCE STATEMENT CONTINUED

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 2020-25 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 105 to 106.

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 96 to 106). 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 84 and comprehensive disclosures of Director remuneration are provided in the South West Water Annual Report and Financial Statements (pages 88 to 89), including the specific performance targets used in the bonus calculations on page 94. These targets used are either in line or more stretching than South West Water's regulatory performance commitments.

NAME & POSITION	SIGNED
Sir John Parker Chairman	
Chris Loughlin Managing Director	
Louise Rowe Finance Director	
Lord Taylor of Goss Moor Non-Executive Director	
Jon Butterworth Non-Executive Director	
Martin Hagen Non-Executive Director	
Neil Cooper Non-Executive Director	
Gill Rider Non-Executive Director	
Susan Davy Pennon Group Chief Financial Officer	
Iain Evans Pennon Group Non-Executive Director	
Claire Ighodaro Pennon Group Non-Executive Director	

RISK REPORT

Risk management and internal control framework

South West Water's core business activities inherently expose the Company to a variety of risks and opportunities which could materially impact our ability to achieve our strategic priorities. The Board is committed to the effective management of both risks and opportunities to ensure the long-term success of the Company.

South West Water as part of the Pennon Group operates a mature, integrated risk management framework (see diagram below) which is embedded into our culture and ways of working at all levels of the business. This framework forms a key part of our governance structures to ensure that there is robust review, challenge and assurance over the management of our key risks and opportunities.

Our risk management framework encompasses both a 'top down' and 'bottom up' approach. This allows risks and opportunities to be cascaded and escalated effectively, while enabling a common understanding of the risks and opportunities that the Company is exposed to and their potential impact on the achievement of our strategic priorities.

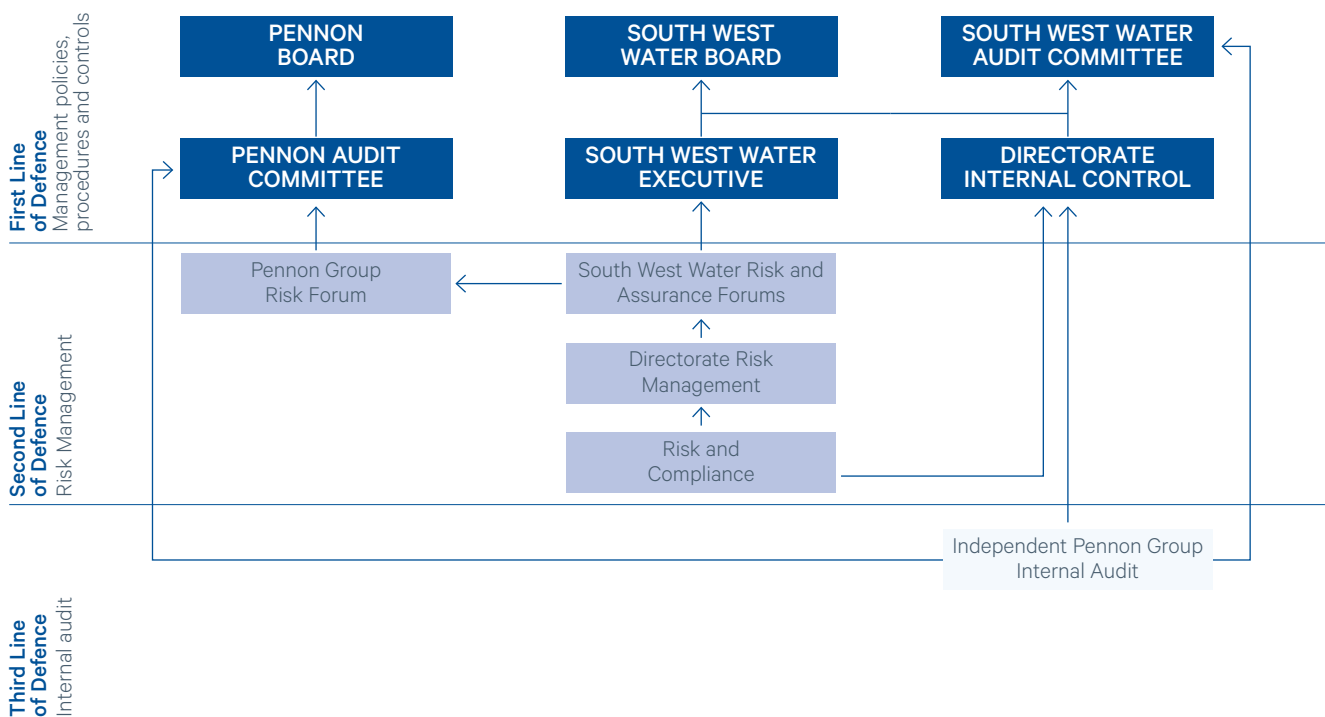
A consistent methodology is applied in the identification, evaluation and management of the Company's risks, which considers both the likelihood of the risk occurring over a long-term period and formally from a Company perspective, a five-year period as well as the potential impact assessed across a range of categories including financial, safety, environmental and customer service. All principal and business level risks are captured within risk registers and are subject to regular review and challenge.

The consideration and evaluation of environmental, social and governance (ESG) risks are integrated into the Company's risk management framework, with the delivery of actions and performance monitored through the ESG framework. Further detail on the ESG framework is available in the Pennon Annual Report.

Emerging risks and opportunities are considered to be factors and events which could potentially have a future positive or negative impact on the achievement of the Company's strategic priorities. Horizon scanning of emerging risks and opportunities is embedded within the regular risk review process. Where an emerging risk is deemed to have crystallised, it is assessed applying the Company's methodology and appropriate mitigating actions are established.

The Company manages its risk exposure, in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control and assurance framework which is aligned to the "three lines of defence" model. The South West Water Executive and the Board obtain comfort over the effectiveness of the internal control environment through visibility of the outputs from a variety of internal and external assurance providers, including an independent Group Internal Audit function.

Risk management framework



- Responsible for the identification of principal risks, setting of risk appetite, and ensuring an effective risk management process
- Responsible for the management of risk in accordance with appetite
- Responsible for evaluating the effectiveness of the internal control environment

RISK REPORT CONTINUED

The key elements of South West Water's risk management process include:

		KEY RISK MANAGEMENT RESPONSIBILITIES	KEY ASSURANCE ACTIVITIES
First Line of Defence	BOARD	<ul style="list-style-type: none"> • Sets the Company's strategic objectives • Establishes the Company's risk appetite • Determines the Company's principal risks • Ensures an effective internal control framework. 	<ul style="list-style-type: none"> • Quarterly reviews of the Company's principal risks against the determined risk appetite • Quarterly reviews of the Company's emerging risk log.
	AUDIT COMMITTEE	<ul style="list-style-type: none"> • Reviews the effectiveness of the risk management framework • Reviews the adequacy of the internal control framework. 	<ul style="list-style-type: none"> • Performs quarterly 'deep dive' reviews on principal risks • Reviews the Group Internal Audit Plan in respect of South West Water • Receives reports on the outcomes of key assurance activities.
	EXECUTIVE MANAGEMENT	<ul style="list-style-type: none"> • Day-to-day management of the principal and operational risks • Establish the relevant risk management processes and procedures • Maintain the internal control framework. 	<ul style="list-style-type: none"> • Perform a thorough appraisal of the Company's risk profile and emerging risk profile quarterly • Monitoring of the Company's performance against KPIs and financial performance • Establish and review policies, procedures and delegated authorities.
Second Line of Defence	GROUP RISK FORUM	<ul style="list-style-type: none"> • Provides review and challenge over principal risks and mitigation strategies • Alignment of the top down and bottom up risk management process • Horizon scanning on emerging risks and opportunities. 	<ul style="list-style-type: none"> • Review of principal risks on a quarterly basis • Deep dive reviews of specific risks. Topics include: cyber security, health and safety, GDPR, Brexit preparedness and delivery of ODIs and performance commitments.
	SOUTH WEST WATER RISK AND ASSURANCE FORUM	<ul style="list-style-type: none"> • Horizon scanning providing a forward-looking view on South West Water specific emerging risks and opportunities • Reporting of updated risk statuses in respect of key Company projects • Review of Group-wide shared service risk registers focusing on risks relevant to South West Water. 	<ul style="list-style-type: none"> • Cyclical review of principal risks over an annual cycle • Quarterly review of assurance processes and by exception the effectiveness of controls in mitigating risks.
	SOUTH WEST WATER DIRECTORATE FUNCTIONS	<ul style="list-style-type: none"> • The identification and assessment of risks • Implementation and execution of appropriate risk mitigation strategies, aligned with the agreed risk appetite • Monitor compliance with internal control framework. 	<ul style="list-style-type: none"> • Review of principal risks on a quarterly basis by the Executive Management Team • Second line compliance functions undertake compliance activities including regulatory, legal, health and safety, ISO standards compliance and other key business processes • Self-certification of compliance with internal control framework.
Third Line of Defence	GROUP INTERNAL AUDIT	<ul style="list-style-type: none"> • Provide independent, risk-based assurance on the effectiveness of the internal control framework • Coordination of independent assurance activities. 	<ul style="list-style-type: none"> • Regular reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes from other third line assurance activity.

Continuous improvements to risk management and internal control

The Company seeks to continually improve its approach to risk management and internal control. During the year there have been a number of developments which have further enhanced these processes:

- Revised Key Risk Indicators and associated metrics have been established, aligned to the priorities over the next regulatory period, to support the monitoring of the Company's principal risks against its risk appetite
- South West Water Risk forums have been streamlined into a single quarterly forum within the extended Executive Management Meeting to allow greater consideration of the cross cutting issues and challenges
- The second line health and safety assurance programme has adopted a risk-based approach to allow resource to be focused on areas of greatest impact
- A project is underway to enhance resilience arrangements, with a Director of Resilience appointed to deliver commitments detailed within our 2020-25 Business Plan
- An electronic learning and policy acceptance platform has been implemented to enable more effective communication and dissemination of key policies and standards.

Ofwat's Board leadership, transparency and governance principles

Ofwat issued revised Board leadership, transparency and governance principles applicable from April 2019 (see pages 104 to 106). Pennon Group plc continues to manage its 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 58 to 68).

Risk appetite

The UK Corporate Governance Code requires companies to determine their risk appetite with respect to the level of risk exposure considered appropriate in achieving the Company's strategic priorities. Striking an appropriate balance between risk and reward is key to the success of the Company's strategy.

The Board has established its risk appetite for each risk category and also for each principal risk. This allows the business to pursue value enhancing opportunities, whilst maintaining an overall level of risk exposure that the Board considers to be appropriate. The Board's evaluation of the effectiveness of internal control is also considered in the context of the stated risk appetite.

The risk appetite for each risk category is detailed below:

RISK CATEGORY	RISK APPETITE STATEMENT
Law, regulation and finance	<p>The Board is committed to fully complying with, and be seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes (but is not limited to) health and safety, where the Board places the highest level of importance on the welfare of our staff, the public and those who work for, or on behalf of, South West Water.</p> <p>The Company also operates a prudent approach to our financing strategy to ensure our long-term financing commitments are met. The Board acknowledges, however, that South West Water operates in a complex environment influenced by Government policy and regulatory reform. Consequently, there is a greater acceptance of risk in these areas and the Company seeks to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.</p>
Market and economic conditions	<p>The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions, both domestically and internationally. The Company seeks to take well-judged and informed decisions to mitigate these risks where possible, but accepts that a level of residual risk may remain beyond the Board's control.</p>
Operating performance	<p>The Board has a low appetite for significant operational failure of our assets and seeks to reduce both the likelihood and impact through long-term planning and careful managing of our operational assets. There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service that we provide to our existing customer base.</p>
Business systems and capital investment	<p>Whilst capital investment activities contain a degree of inherent risk, all decisions are taken on an informed basis with risks weighted against potential appropriate returns on a case by case basis. South West Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.</p>

Principal risks and uncertainties

South West Water’s business model exposes it to a variety of external and internal risks influenced by the possible impact of macro political, economic and environmental factors.

While the ability of the Company to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Company performs a range of scenario planning and analysis exercises to understand the risk exposure of one or a number of these events occurring.

The United Kingdom’s exit from the European Union

Prior to the UK’s exit from the European Union (EU), detailed contingency plans had been established and tested to mitigate against potential issues that may have occurred in the event of a no-deal scenario. Negotiations on future trading agreement between the UK and the EU is ongoing and continue to be closely monitored. The impact of any agreement on the Company’s operations and processes will be fully evaluated as further detail is confirmed. In the event that no agreement is reached, and trade arrangements revert to World Trade Organization (WTO) rules, existing contingency plans will ensure that South West Water is well prepared to mitigate against any short-term impact that is likely to arise from this scenario.

Impact of COVID-19

The Board recognises the significant impact that COVID-19 has had globally and within the UK. In response to the current situation the UK Government has designated key-worker status to our front line operational activities. In order to continue delivering the expected levels of service to our stakeholders we have reviewed our processes and ways of working and implemented appropriate response plans, whilst continuing to prioritise the health, safety and well-being of our employees and customers which remains paramount during this period. We also continue to work closely with our key stakeholders and peers including Local Resilience Forums, Water UK, Ofwat and Defra ensuring a joined up and collaborative response. Both the Executive and Board continue to receive regular updates on South West Water’s response.

To date, our business has remained broadly resilient to the immediate risks that have been presented by COVID-19. It is likely, however, that there will be ongoing restrictions in place during the next financial year which could provide continued challenges to the delivery of our key operational activities. Medium-term response planning has been undertaken to mitigate these risks where possible, which has considered a range of potential scenarios informed by actions taken by other countries impacted by the virus. These plans will continue to be reviewed and updated as further details emerge.

The principal risks detailed in the following pages have been assessed applying our impact and likelihood methodology, separately identifying both the underlying risk assessment (pre COVID-19) and the risk assessment incorporating the emergence of COVID-19. Where impacted by COVID-19 the commentary for individual principal risks provides additional commentary on additional mitigation steps that have been taken.

The Directors confirm that during 2019/20 they have carried out a robust assessment of current and emerging risks facing the Group. The assessment of the Group’s principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on page 112.

Other changes to risk assessments

Risk A (Changes in Government Policy) is now assessed as amber and decreasing at a net risk level, having previously been assessed as red. This reflects the reduction in risk of renationalisation following the December 2019 general election.

Details relating to other changes to assessed direction of travel of risks is considered in the detailed tables.

A risk reported in the previous year ‘Poor customer service / increased competition leading to loss of customer base’ is not reported this year. Customer service risk is included within the assessment of the risk of non-delivery of regulatory outcomes, whilst the competition element is deemed limited in the context of South West Water.

Overall assessment of risks







The Directors confirm that during 2019/20 they have carried out a robust assessment of risks facing the Company, including assessing the impacts on its business model, future performance, solvency and liquidity.

These principal risks have been considered in preparing the viability statement on page 112.

Strategic impact and risk rating

Our principal risks link to the strategic focus areas as described on page 119, and have been assessed on the following scale:

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 

PRE COVID-19

POST COVID-19

A B C D E F G	H		O	D F			O
E G	I	J N M L	P	A B C E G	H I	J M L	P
						N	
Law, regulation and finance	Market and economic conditions	Operating performance	Business systems and capital investments	Law, regulation and finance	Market and economic conditions	Operating performance	Business systems and capital investments

PRINCIPAL RISK	REF	STRATEGIC PRIORITIES	RISK DESCRIPTION	PRE COVID-19	POST COVID-19
Law, regulation and finance	A	Finance and economy	Changes in Government policy	↓	↑
	B	Environment Finance and economy	Regulatory reform	↔	↑
	C	Environment Finance and economy	Compliance with laws and regulations	↑	↑
	D	Finance and economy	Maintaining sufficient finance and funding, within our covenants, 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	Failure to pay all pension obligations as they fall due and increased costs to the Company should the deferred pension scheme deficit increase	↑	↑
Market and economic conditions	H	Finance and economy	Non-recovery of customer debt and affordability	↑	↑
	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	N/a	N/a
	L	Water Service Environment	Business interruption or significant operational failure/incidents	↔	↑
	M	People and community	Difficulty in recruitment, retention and development of appropriate skills which are required to deliver the Company's strategy	↔	↑
	N	All	Non-delivery of regulatory outcomes and performance commitments	↑	↑
Business systems and capital investments	O	Finance and economy	Failure or increased cost of capital projects/exposure to contract failures	↔	↑
	P	Water Service	Failure of IT systems, management and protection including cyber risks	↑	↑

RISK REPORT CONTINUED

Principal risks: law, regulation and finance

A. CHANGES IN GOVERNMENT POLICY

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Finance and economy</p> <p>Changes in Government policy may impact our ability to deliver the Company's strategic priorities.</p>	<p>The General Election in December 2019 has provided greater certainty over Government policy with the current UK Government supportive of the existing regulatory model.</p> <p>We continue to engage with all political parties, customers and wider stakeholders, both directly and via Water UK, demonstrating the value received from our operational performance and continued investment in the network infrastructure.</p> <p>The UK Government has also committed to the £50 Government contribution made to household customers of South West Water being retained for 2020/21. A further announcement will be made in subsequent years.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↓</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↔</p>	<p>We recognise that Government policy evolves and seek to minimise potential risk whilst maximising opportunities through regular engagement, communication and robust scenario planning.</p>

B. REGULATORY REFORM

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Environment</p> <p>Finance and economy</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>Greater certainty over reform of the regulatory framework has been provided through the announcement of South West Water's Final Determination for the 2020-25 regulatory period, which we accepted in February 2020.</p> <p>There remains a continued focus from Ofwat on the governance of companies in the water sector; in particular the introduction of a 'social contract' between water companies and their stakeholders. We have been an active voice in the sector on this topic. This concept was at the heart of South West Water's 2020-25 Business Plan, entitled 'New Deal.'</p> <p>We maintain ongoing dialogue directly with the regulators and through sector-wide forums and we engage fully with consultations and proposed reforms of the regulatory framework.</p> <p>A number of temporary regulatory changes have been introduced in response to COVID-19; in particular wholesaler support for the retail market. The speed at which these changes are being introduced has impacted on the ability to fully consult with regulators and increases the possibility that these changes are detrimental to the South West Water's activities.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↔</p>	<p>We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the negative impact of regulatory reform by targeting changes which are NPV neutral over the longer term to protect customer affordability and shareholder value.</p>

C. COMPLIANCE WITH LAWS AND REGULATIONS

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Environment</p> <p>Finance and economy</p> <p>South West Water is required to comply with a range of environmental laws and regulations.</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>South West Water operates a robust and mature regulatory framework which ensures compliance with Ofwat, Drinking Water Inspectorate, Environment Agency and other relevant requirements, which is subject to regular Executive review.</p> <p>All regulatory changes are subject to detailed review and, where necessary, internal processes and systems are adjusted to ensure compliance.</p> <p>South West Water also maintains a comprehensive framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies such as the Code of Conduct, Supply Chain Code of Conduct and Anti-Slavery. Additionally, the Group's Speak Up whistleblowing process allows any concerns to be raised confidentially and robust processes are in place for investigating these.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↑</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↔</p>	<p>South West Water has the highest standards of compliance and has no appetite for legal or regulatory breaches.</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>Finance and economy</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 arrangements in place and the impact of political, economic and regulatory risks on the Company's financing commitments and cash flow is regularly reviewed by the Executive and Board.</p> <p>The Company operates with a strong liquidity position and a diversified funding mix. Funding is in place at effective average interest rates below many in the sector, with prefunding and headroom, including revolving credit facilities, available to meet future funding requirements.</p> <p>South West Water is prefunded well into the 2020-25 period and is already identifying further funds into the period. These funds include £245m provided through Pennon's pioneering Sustainable Funding Framework.</p> <p>The strength of our position provides the Company with added resilience in the event of short-term volatility as a result of COVID-19.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↔</p> <p>2019</p> <p>↔</p>	<p>We operate a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.</p>

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>People and community</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 & safety risks continues to be a priority for the Board and Executive.</p> <p>During the year the full roll out of HomeSafe was progressed and experienced health and safety professionals are embedded within the business providing advice, guidance and support to operational staff.</p> <p>The lost time injury frequency rate (LTIFR) of 1.27 is a further improvement on prior year and the Company remains on track to achieve its target of 0.25 by 2025.</p> <p>In response to COVID-19 additional safety measures have been introduced to ensure that key activities within South West Water can continue to be performed safely, in line with Government and Public Health guidance. This includes remote working, social distancing and the provision of additional hygiene and Personal Protective Equipment (PPE).</p>	<p>2020 Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↔</p> <p>2019</p> <p>↔</p>	<p>The Board has no appetite for health and safety-related incidents and expects 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>People and community Finance and economy</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 Pennon Group, including South West Water, continues to achieve the Fair Tax Mark; an independent certification scheme, which recognises organisations that demonstrate they are paying the right amount of corporation tax in the right place, at the right time.</p> <p>South West Water utilises an experienced and professionally qualified group in-house tax team, supported, where necessary, by external specialists.</p> <p>The Senior Accounting Officer is required to review and declare annually the effectiveness of tax related internal controls.</p>	<p>2020 Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↔</p> <p>2019</p> <p>↔</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. FAILURE TO PAY ALL PENSION OBLIGATIONS AS THEY FALL DUE AND INCREASED COSTS TO THE COMPANY SHOULD THE DEFERRED PENSION SCHEME DEFICIT INCREASE

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Finance and economy</p> <p>The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.</p>	<p>The Company utilises an experienced Pennon Group in-house Pensions team who also engage professional advisors to manage the pension scheme's investment strategy, ensuring the scheme can pay its obligations as they fall due.</p> <p>The revaluation of the defined benefit pension scheme, which is due to be completed during the middle of 2020, will reflect the continued low yields as a result of market volatility combined and the requirements for a prudent approach to the scheme's long-term funding target.</p> <p>A consultation is currently underway on potential changes to the pension scheme arrangements which, if accepted, will be effective from July 2020.</p>	<p>2020 Pre COVID-19</p> <p>↑</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↑</p>	<p>The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.</p>

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>Finance and economy</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>South West Water has mature and embedded debt collection strategies in place for the recovery of domestic customer debt which have delivered improved collection rates and decreased bad debt exposure during the year.</p> <p>The potential impact of COVID-19 could place affordability pressure on our customers.</p> <p>We work proactively with our customers and have a range of affordability schemes and tariffs to support them including Restart, WaterCare and Freshstart. Additional short-term flexibility, requested by our regulators, has already been incorporated within our collection processes.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↑</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↑</p>	<p>While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect customers results in a residual risk of uncollectable debt remaining.</p>

I. MACRO-ECONOMIC RISKS IMPACTING COMMODITY AND POWER PRICES

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Finance and economy</p> <p>The economic climate as well as commodity and energy prices have a direct impact upon the amount 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 channels, ensuring quality of provision and price.</p> <p>Energy usage is minimised (including reduction 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>Despite the current volatility experienced within the spot market, partly as a result of COVID-19, medium-term electricity prices are relatively stable and South West Water has hedged the majority of wholesale power costs for the first two years of the 2020-25 regulatory period.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↓</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</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>Water</p> <p>Environment</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 and reputational damage.</p>	<p>The increased frequency and impact of extreme weather exposes our assets to risk, while there continues to be a reduced appetite for reduced performance arising from such incidents from the regulator and our stakeholders.</p> <p>The Company seeks to mitigate this risk through investment via a planned capital investment programme, emergency resources and contingency planning. As part of the risk management process the Company also performs horizon scanning on the longer-term impacts of climate change on its operations.</p> <p>Further improvement in our resilience is a key focus area within the 2020-25 regulatory period. A Director of Resilience has been appointed during the year to lead this workstream.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↔</p> <p>2019</p> <p>↔</p>	<p>We seek to reduce both the likelihood and impact of climate change through long-term planning and forecasting to ensure sufficient measures are in place to mitigate the impact of extreme weather and climate change on our operations.</p>

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>Water Service Environment</p> <p>Operational failure could mean that we are unable to supply clean water to our customers or provide safe wastewater processes.</p> <p>This has a direct impact on the successful delivery of the 2015-20 and 2020-25 Business Plans.</p>	<p>Due to the nature of South West Water’s operations, there are risks which arise during the normal course of business, including risk of failure of assets, processes or systems.</p> <p>These could include:</p> <ul style="list-style-type: none"> • water quality deterioration • contamination of water supplies • pollution and flooding events • water resource restrictions. <p>South West Water has mature processes in place for the management of its assets which is done through a programme of sophisticated planned and preventative maintenance and effective management of stores.</p> <p>Existing processes have been extensively reassessed in the light of the potential impact of COVID-19 and appropriate measures and actions have been introduced, working with the wider sector and our key strategic partners, to ensure the continued delivery of our highest priority activities.</p>	<p>2020 Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↑</p>	<p>We operate a low tolerance for significant operational failure or incidents. We seek to mitigate these risks where possible.</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>People and community</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 generate synergies (including through the Group’s ‘shared services’ structure) to move the Company forward.</p>	<p>The Pennon Group’s HR Strategy continues to be embedded across the organisation in order to continue to attract, retain and develop our employees.</p> <p>South West Water’s Employee Engagement Forum provides opportunities for employees to regularly discuss business priorities and challenges with business leaders.</p> <p>The impact of these initiatives is measured through the results of the most recent Great Place to Work Best Workplace Survey, which showed an improved Trust Index score of 63% and Engagement score of 80%.</p> <p>Succession plans remain in place for senior and other key positions. In order to ensure South West Water can compete for the top talent in the marketplace during the year we recruited an additional 85 apprentices.</p>	<p>2020 Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↔</p>	<p>Whilst turnover of staff does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.</p>

N. NON-DELIVERY OF REGULATORY OUTCOMES AND PERFORMANCE COMMITMENTS

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Water</p> <p>Service</p> <p>People and community</p> <p>Environment</p> <p>Finance and economy</p> <p>South West Water's outcomes and performance commitments span all of our strategic focus areas.</p> <p>Non-delivery of these could result in financial penalties being applied as well as reputational damage.</p>	<p>The regulatory framework has been in place since 1 April 2015 and South West Water has delivered cumulative net ODI rewards of £13m during 2015-20.</p> <p>The ODI regime in the 2020-25 regulatory period is more stretching with the overall reward/penalty range more penal. It is recognised that in order to meet these revised commitments further action is required in specific areas.</p> <p>South West Water has used the fast-track status awarded by Ofwat to commence early roll out of key projects and initiatives necessary to deliver the required step change and ensure these commitments are met.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↑</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↑</p>	<p>We are committed to achieving all of our performance commitments over the length of each regulatory period.</p> <p>Where performance in an individual year falls below expectation we implement action plans and targeted interventions to ensure performance returns to committed levels.</p>

Principal risks: business systems and capital investment

O. FAILURE OR INCREASED COST OF CAPITAL PROJECTS/EXPOSURE TO CONTRACT FAILURES

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Finance and economy</p> <p>Failure of our assets to cope with extreme weather conditions may lead to increased costs and delays and detrimentally impact our ability to meet customers' needs, as well as environmental and reputational damage.</p>	<p>All capital projects are subject to a robust business case process which includes challenge and risk modelling over key assumptions. Projects are delivered using skilled project management resource complemented by senior oversight and leadership.</p> <p>Agreements are in place with strategic partners who will support the delivery of the capital programme during 2020-25. Regular monitoring is performed on the financial health of key contractors and supply chain partners.</p> <p>As a result of the financial challenges experienced by large contractors in the construction sector (and potential challenges caused by COVID-19), there is a reduced appetite for large construction projects, which could result in a lack of commercial tension.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↔</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</p> <p>↔</p>	<p>South West Water's investment activities are taken on an informed basis with risks weighed against appropriate returns.</p>

RISK REPORT CONTINUED

Principal risks: business systems and capital investment continued

P. FAILURE OF INFORMATION TECHNOLOGY SYSTEMS, MANAGEMENT AND PROTECTION INCLUDING CYBER RISKS

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<p>Water Service</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 operates a mature and embedded governance framework and holds the ISO 27001 certification.</p> <p>Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed and tested.</p> <p>Cyber threats continue to increase in volume and sophistication. These risks are mitigated by a strong preventative and detective information security framework aligned to guidance issued by the National Cyber Security Centre (NCSC).</p> <p>South West Water continues to progress actions to meet the requirements of the Network and Information Systems (NIS) directive with activities aligned to the priorities identified by the Drinking Water Inspectorate.</p>	<p>2020</p> <p>Pre COVID-19</p> <p>↑</p> <p>Post COVID-19</p> <p>↑</p> <p>2019</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>

REGULATORY 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 3.11 – Guideline for the format and disclosures for the Annual Performance Report
- RAG 4.08 – 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 IFRS 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 134 to 140 of our Annual Report and Financial Statements.

The accounting policies and disclosures set out below are those specifically required within RAG 3.11.

These regulatory accounts were approved by the Board of Directors on 15 July 2020.

The going concern basis has been adopted in preparing the financial statements as stated by the Directors on page 117. At 31 March 2020, the Company had access to undrawn committed funds and cash and cash deposits totalling £519.1 million (£293.2 million excluding restricted cash). Having considered the Company's strong funding position and prudent financial projections, which take into account a range of possible impacts, as described in this report, including the COVID-19 pandemic, the Directors have a reasonable expectation that the Company has adequate resource to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and that there are no material uncertainties to disclose. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 90 to 97 of the Remuneration report including details of the performance-related bonus arrangements and the amounts paid to Directors under those arrangements.

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.

2020-25 dividend policy

We believe that our dividend policy should be transparent, recognise our commitments to customers and ensure South West Water remains financeable – anchored in the base allowances approved by the regulator to give customers assurance they are fair and balanced. Our dividend policy sets out how we ensure everyone shares in our success with customers benefiting from lower bills and shareholders earning a fair return for investment.

We are providing a comprehensive approach to gearing, dividends and benefit sharing which builds on a track record of paying a reasonable and sustainable dividend, maintaining gearing in line with Ofwat's notional view and voluntarily sharing considerable benefits with customers.

We have considered our dividend policy for the next regulatory period (K7 – 2020-25) and have ensured it remains aligned with Ofwat's principles published in 'Putting the sector back into balance'.

Our innovative and unique WaterShare mechanism in place since 2015 will again ensure customers share in our success – and South West Water has committed to voluntarily sharing 100% of embedded debt outperformance from market movements with customers in K7 – in K6 this has resulted in some c.£23m of benefits.

Our dividend policy will continue to be based on:

- **Base dividends** – derived from the price determination and are made with reference to Ofwat's assessment for a notional balance sheet
- **Outperformance dividends** – linked to business performance and outcomes delivered ahead of business plan commitments (totex, ODIs and financing)
- **Gearing dividends** – payments designed to ensure that key financial ratios are optimised and gearing remains aligned with Ofwat's notional level – and does not exceed 70% gearing.

This dividend approach aligns with Ofwat's assessment of Financial Flows which was implemented during K6 to improve transparency over the financial performance of individual companies and ensure consistency in the approach of reporting how dividends are distributed or retained. Over K6 South West Water's actual dividend payments have been below the financial flow returns and we have retained an element of returns within the Company to improve financial resilience.

REGULATORY DISCLOSURES CONTINUED

Base dividends:

Our approach to paying a base dividend is that it should broadly reflect the assumptions made by Ofwat for the notional capital structure and cited as a reasonable level for base equity returns – this would reflect a base level of dividend that is in line with Ofwat's assessment of the return on equity at the notional yield of 3.0%.

Base dividends are calculated and paid during the year – with any variation reconciled and offset / paid in subsequent years.

The PR19 regulatory approach incentivises companies to outperform regulatory targets. Dividends should promote continued outperformance – it is in all stakeholder interests that we continue to outperform so we reduce bills through efficiencies and improved service levels.

Outperformance:

Outperformance arises through:

- **Totex outperformance** – efficient delivery resulting in totex savings and lower costs shared with customers' lowering future bills
- **ODI outperformance** – net ODI rewards, where operational delivery is ahead of the commitments for customers approved within the Business Plan
- **Financing outperformance** – where efficient financing results in lower effective interest rates compared to notional levels.

Linking our dividend directly to actual outperformance delivered ensures that payments are not made in the event that South West Water delivers poor performance or is materially failing statutory or customer obligations.

Where outperformance dividend payments are payable, any sharing for customers (through our innovative WaterShare mechanism) will be recognised as a reduction to the dividend value before any outperformance payment to shareholders is made – this ensures that customer benefits take priority over sharing with shareholders.

Outperformance dividends are paid in arrears to ensure only actual and not forecast outperformance is paid.

Capital structure dividends:

Capital structure dividend payments are designed to ensure that key financial ratios are not prejudiced and to allow South West Water to manage its gearing profile to align with Ofwat's assessment of a notional company structure. Any such payments will consider the financial viability and long-term resilience of the appointed business as well as consider any other significant obligations (such as pension scheme deficit levels) before payment.

Consideration will also be given to the level of dividend allowed within the cumulative financial flows assessment and profit after tax to ensure that excessive dividend distributions are not allowed within this policy.

Reporting:

Our dividend payments will continue to be transparently reported – our Annual Performance Report will explain how our dividend is consistent with our policy.

We will ensure that the consideration given to delivery of our commitments is clearly reported each year. This will specifically consider and report on:

- Our performance across our obligations and highlight how returns are linked to the regulatory funds flow reporting
- Delivery of ODIs and other commitments for customers
- Clearly disclose the assessment of the sharing with customers through our WaterShare mechanism – which is 'recognised' and reduces any outperformance dividends
- Financial viability and long-term resilience and how this has impacted dividend payments.

In line with our current practice we will continue to discuss our dividend policy with the independent WaterShare+ Panel and seek endorsement from them for any changes proposed – reporting the outcome of any engagement.

In addition, customers will be able to feedback on our delivery during the public quarterly meetings and Customer Annual General Meeting (CAGM) planned under our "New Deal" from 2020.

ACCOUNTING POLICY NOTE FOR PRICE CONTROL SEGMENTS

In accordance with Regulatory Accounting Guideline 4.08 – '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.

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. 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.

Wholesale non-household revenue is 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 2018/19. A retrospective review of the 2018/19 measured income accrual and the amounts actually billed during 2019/20 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.

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 134.

Within the statutory accounts, and in line with IFRS 15, 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 IFRS 15 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 £4.8m of revenue recognised within the Regulatory Reporting which is not recognised as revenue within the Financial Statements.

Following this accounting treatment an additional £4.8m is recognised as a expected credit loss 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 3.11, borrowing costs are not capitalised.

EXPECTED CREDIT LOSS NOTE

The Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures, at the balance sheet date, the Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. South West Water has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

In light of the broad economic challenges caused by the COVID-19 pandemic, part of the assessment of ECLs has been focused on the potential impact from the pandemic. Considerations in this assessment have included the type of customers and past experience of behaviours in challenging economic times. The precise quantum of the impact of the pandemic on the Company's customers is subject to significant estimate at the current time.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2020 the Company's current trade receivables were £208.4 million (2019: £199.7 million), against which £91.6 million (2019: £86.8 million) had been provided for ECLs (note 19 of the annual report and accounts). The provision for ECLs includes a non-underlying charge of £2.8 million in relation to the impact of COVID-19.

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.

POST BALANCE SHEET EVENTS

Impact of COVID-19

The World Health Organization (WHO) announced that COVID-19 was a global pandemic on 11 March 2020 and the UK Government announced its wide-ranging lockdown restrictions on 23 March 2020. Given these events took place prior to the Company's financial year end of 31 March 2020, the Directors have taken the impact of these events into account when making their key judgements and estimates at the balance sheet date, as outlined in note 4 to the annual report and accounts, up to the date of approving the annual report and accounts.

The Company's operational response to COVID-19 is set out throughout the strategic review section of the annual report on pages 3 to 33. In addition, the risk report on pages 39 to 49 sets out the updated risk assessment in response to the pandemic.

In assessing its going concern and viability, the impacts of COVID-19 on these assessments has been considered in full and are set out on page 112.

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 2020 ("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), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis 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 grants and 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), the infrastructure charges reconciliation (table 2K) 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 have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.11, appendix 2), set out on pages 127 to 129.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standards as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. 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 have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have 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 136 to 143 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 audit of the Regulatory Accounting Statements section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Emphasis of matter – Effects of COVID-19

We draw attention to the basis of preparation note on page 127, the expected credit note loss note and the post balance sheet events note, both on page 129, which describe the financial and operational impact the company is facing as a result of COVID-19 which is impacting customer demand and collection of receivables. Our opinion is not modified in respect of this matter.

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 where:

- 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 12 months from the date when the Regulatory Accounting Statements are authorised for issue.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements 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, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information; we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 111, 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 3.11, appendix 2).

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Regulatory Accounting Statements.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for>. This description forms part of our auditor's report.

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 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 is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2020 on which we reported on 19 June 2020, 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
Newcastle upon Tyne

15 July 2020

TECHNICAL AUDITORS' REPORT

Introduction

South West Water (SWW) has eight Outcomes with 41 Performance Commitments (PCs), 25 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 (FD), prior to the acquisition of BW by Pennon Group PLC.

SWW has monitored and measured its performance throughout AMP6 and is publishing its final outturn for AMP6 as at 31 March 2020 against the targets set in the 2014 FD. Progress has been monitored monthly by senior management and the Directors via the Directors' Report. In addition, the independent customer group, WaterFuture, for SWW's customers, and BW's Customer View Group have also monitored performance and challenged the Company to ensure performance remains on track.

SWW requested Jacobs to audit and assure the technical elements of the 2019/20 Annual Performance Report (APR), to include the Company's final performance against the PCs which are derived from CAPR data. The purpose of the audits was to review the methodologies for compiling the information, trace information to sources, provide an opinion on the accuracy, reliability and completeness of the data, and ultimately to provide independent assurance to the Executive Management and Board of SWW that the reported performance is a reasonable account of SWW's performance.

Our audits commenced in February 2020 for information reported on a calendar year basis. These were completed as planned. Following the COVID-19 lockdown in late March 2020, SWW and Jacobs worked together to implement contingency plans to arrange all audits to be carried out remotely via Teams/Webex and trial the communications in advance. The year-end audits were substantially completed by 22 May 2020 as agreed with SWW.

We provided a progress statement to the Executive Management Meeting on 4 May 2020 which we attended to report progress to 1 May 2020. We presented a draft Assurance Report to the South West Water Executive meeting on 7 May 2020. This Assurance Report updates the 7 May report and concludes our assurance for the 2019/20 APR.

SWW's staff in the Finance and Regulatory departments and the wider teams have been extremely flexible at working remotely with collaboration and positivity throughout the process.

Audit opinion

Our audit of the CAPR20 data tables 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. Recording of corporate and operational data, subsequent reporting into the APR and sign off by senior managers and Directors have maintained high standards which confirms confidence in the information.

Some audits identified a small number of items that required correction or updates, which have subsequently been addressed. In some areas we made recommendations to refine future reporting which SWW may wish to consider.

We consider the metrics provide a fair and reasonable account of SWW's performance as measured through the PCs for both the SWW and BW regions in 2019/20 to conclude AMP6.

ITEM	RAG	AUDIT STATEMENT
ODI information, Annual Performance Report (APR) (technical data) tables and internal data tables	●	<p>We conclude that the ODI information reported at 31 March 2020 is accurate, reliable and complete. 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 internal data tables which we have audited for the majority of ODIs.</p> <p>Where ODI or APR information is not sourced from this audited data, we confirmed robust systems are in place to capture the required information and performed audit procedures in respect of this data.</p>
Achievement of performance commitments	●/●	<p>There are a total of 56 Performance Commitments across SWW and BW, the majority of which have been met. 14 PC targets (11 SWW, 3 BW) have been missed. These have reasonable explanations.</p>
South West Water and Bournemouth Water – good practice and performance areas	●	<ul style="list-style-type: none"> - Supply interruptions and consistency of reporting - Customer services – 15% reduction in written complaints - Leakage reduction - Delivery of PCs to reduce the risk of large scale interruptions (BW) and the ability to move water around the network (SWW) with innovative solutions - Environmental performance through SWW's Upstream Thinking programme

Our key audit findings above are assessed against the agreed RAG criteria below.

- No exceptions and compliant with requirements
- Minor exceptions
- Material exceptions
- Non-material observation or suggested opportunity for improvement

We do not believe that any of the minor exceptions and non-material observations or opportunities for improvement raised are a cause for concern.

Key findings

We have assessed the information within our scope against the audit tests 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 4 of K6. Whilst we have identified a number of minor exceptions, none of these are cause for concern, and with continued focus we consider the majority of the AMP commitments are achievable.

The completed 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.
●	The importance of 2019/20 as the outturn year of AMP6 was highlighted at the APR launch event in January 2020. The requirement for internal QA of data and Director challenge and sign off was emphasised at the event. This was evident at the majority of the assurance audits.
●	Notable performance against the ODIs audited to 1 May 2020 is as follows: <ul style="list-style-type: none"> • Supply interruptions (SWW) shows a small increase in hours per property compared to 2018/19 however has outperformed the PC. BW's supply interruptions have also outperformed the PC despite a larger increase (relative for BW) which was impacted by two discrete events. This reflects further investment and changes SWW has made to the equipment in the field. • The number of contacts per 1,000 population for taste, smell and odour has improved, outperforming the PC and attracting a reward • Ability to move water around the network has progressed, meeting the PC • The percentage of customer contacts (water) resolved first time has increased, outperforming the PC and attracting a reward • All asset health indicators have been maintained as 'Stable', meeting the PCs • BW's metering strategy has met the PC.
●	SWW has not met ten PC targets with two attracting penalty payments and one in the penalty deadband. BW has not met four PCs. We discussed reasons and the evidence for these targets not being met and consider there are credible explanations. Since the majority of the targets that have been missed are reputational, these need to be articulated carefully in SWW's Annual Performance Report publication.
●	The sub-components of Wastewater Asset Health (infrastructure) all show some fluctuation compared to 2018/19. Sewer flooding (other causes), repeat floodings have varied up and down but have maintained status quo. The overall size of internal flooding register has increased. Internal sewer flooding has failed the PC for 2019/20.
●	The number of total burst mains shows a marked reduction since 2018/19 and is the best performance throughout the AMP.
●	Meters renewed in BW have increased significantly in the year which has recovered the position in 2018/19 where integration of the job management system with SWW's Ellipse system and staff shortages put meeting the end of AMP target (internal) at risk. The target has been outperformed.
●	We confirmed SWW has met the leakage target for the SW region and outperformed the target for the BW region, attracting a financial reward.
●	SWW and BW meter under-registration values appear to be significantly higher than those of other companies in the industry, based on the results of a WRc under-registration club project. <p>We recommend that SWW considers seeking to understand what their meter under-registration values would be from this club project, explain any differences, and summarise why one method/approach is most suitable for their metering stock.</p> <p>We know from previous conversations that SWW is looking into a plan to upgrade and replace their meters and we reinforce this as a worthy endeavour.</p>
●	SWW and BW have performed well in customer services as indicated by a 15% reduction in written complaints.
●	For 2019/20 in preparation for AMP7 and C-MeX, Ofwat has devised a "Proxy SIM" measure using an approximation of the SIM qualitative and quantitative scores. There are two inevitable divergences from the AMP6 SIM regime which make comparison with previous years difficult: the new survey uses a different scoring system and the mapping of scores from one system to the other is inevitably approximate; the sample size of BW is very small. Ofwat also introduced a methodology change, excluding customers whose interaction had been online. All comparisons of SIM with previous years should therefore be heavily caveated.
●	SWW has used good practice to calculate its own estimate of SIM using the same quantitative methodology as previous years. This would be expected to be a better estimate of what the SIM score would have been, but it cannot address the sources of error in Ofwat's Proxy-SIM referred to above. It also cannot be stated with certainty whether the resulting differences from a hypothetical "real" SIM score produce an under- or over-estimate.
●	BW's PC to Repair Visible Leaks (percentage of visible leaks being repaired within seven calendar days of BW becoming aware) has dropped from 74% to 65%, missing the PC target (85%). We understand this is due to a lower number of resources within the framework contractor's organisation.

TECHNICAL AUDITORS' REPORT CONTINUED

Key findings continued

●	SWW's PC to fix significant leaks within 2 days has been missed at 3.23 days. This reputational PC has been a challenge throughout the AMP and is understandably difficult to achieve when the logistics of many repairs to significant leaks are considered, for example traffic management and Local Authority activity to suspend parking bays.
●	Compliance with water quality standards has remained the same with SWW's Mean Zonal Compliance on target at 99.98% (target is 99.98%), and marginally below target at 99.99% for BW (target is 100%).
●	96.2% of Water operational contacts were resolved first time, exceeding the target of 95%. This is up from 95.4% in 2018/19.
●	93.6% of Wastewater operational contacts resolved first time, missing the target of 95% which attracts a small penalty.
●	Pollutions (Water) Category 1 & 2 is on target at zero.
●	Pollutions (Water) Category 3 & 4 has underperformed at 10 incidents against the annual target of 2 (performance was 12 in 2018/19).
●	SWW has met its reputational Performance Commitments of net carbon emissions for water and wastewater.
●	There has been an improvement in the methodology used to calculate net carbon emissions for drinking water services where the reporting of emissions from chemical purchase is now based on the actual relative percentage concentration of the primary chemical product being purchased rather than a standard assumption in the Carbon Accounting Workbook that has been used previously. This methodology change should provide a more accurate value for the emissions from this source, but it is noted that the change in methodology results in a material change in reporting of emissions in the context of meeting the Performance Commitment for net operational emissions for drinking water services.
●	SWW has not met its Performance Commitments for water and wastewater of the percentage of energy sourced from renewable sources.
●	BW's Performance Commitment to reduce energy used in water delivery has not been met, reporting 615 kWh/MI against the target of 530 kWh/MI. This Performance Commitment is reputational and therefore does not incur a financial penalty. We note that the energy required to treat and deliver a Megalitre of water has decreased from the 2018/19 period.
●	BW's PC Contribute to the Community of the number of volunteer days has not been met. In this scenario, the PC definition provides an alternative for SWW to make a donation to a charity of the Customer View Group's choice. The fallback position meets the target.
●	SWW's Performance Commitment of the length of river water quality improved was back end loaded and in APR19 we considered that SWW's delivery plan would likely exceed the target in 2020. We confirmed the commitment of 650 km of river improved by 2019/20 has been met (actual = 659 km).
●	We note a number of items of good practice, for example: <ul style="list-style-type: none">• Changes in the Central team monitoring and investigating supply interruption performance where investigations carried out by the Area teams have now been centralised with the team in Exeter. This has brought consistency to the processes.• Network model coverage in SWW has been further expanded during the year and full coverage should be available in the summer of 2020.• Governance and level of checking of data, for example in supply interruptions and Developer Services.

Audits of financial information are completed by the financial auditors.



G D Hindley
Technical Assurance Director, Jacobs
15 July 2020

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 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
For the year ended 31 March 2020

	Adjustments				Total appointed activities £m
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	
Revenue	571,593	(8,644)	10,789	(19,433)	552,160
Operating costs	(329,356)	(3,619)	(9,373)	5,754	(323,602)
Other operating income	–	0,421	–	0,421	0,421
Operating profit	242,237	(11,842)	1,416	(13,258)	228,979
Other income	–	12,207	0,660	11,547	11,547
Interest income	2,297	–	0,043	(0,043)	2,254
Interest expense	(73,424)	(1,802)	–	(1,802)	(75,226)
Other interest expense	–	(0,210)	–	(0,210)	(0,210)
Profit before tax and fair value movements	171,110	(1,647)	2,119	(3,766)	167,344
Fair value gains/(losses) on financial instruments	–	–	–	–	–
Profit before tax	171,110	(1,647)	2,119	(3,766)	167,344
UK Corporation tax	(24,880)	–	(0,281)	0,281	(24,599)
Deferred tax	(38,083)	0,600	(0,151)	0,751	(37,332)
Profit for the year	108,147	(1,047)	1,687	(2,734)	105,413
Dividends	(249,700)	–	–	–	(249,700)
Tax analysis					
Current year	(26,960)	–	(0,281)	0,281	(26,679)
Adjustments in respect of prior years	2,080	–	–	–	2,080
UK Corporation tax	(24,880)	–	(0,281)	0,281	(24,599)

£m

Analysis of non-appointed revenue

Imported sludge	–
Tankered waste	1,266
Other non-appointed revenue	9,523
Revenue	10,789

The Company does not have any financial instruments accounted for at fair value through the income statement. Statutory operating costs, include an amount of £2.8m relating to an Expected Credit Loss (ECL) provision for COVID-19 as well as £0.2m of past service costs. These have both been treated as non-underlying in the statutory accounts. Interest expense includes £1.2m of interest charge relating to assets recognised as a result of the implementation of IFRS 16.

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 reflects 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	4,800	(4,800)	–	–	–	–	–
Net income/operating cost allocations ¹	(1,237)	1,237	–	–	–	–	–
Classification of new connections & infrastructure income	(11,547)	–	–	11,547	–	–	–
Classification of rental income	(0,660)	–	–	0,660	–	–	–
Profit on disposal of fixed assets	–	(0,421)	0,421	–	–	–	–
Capitalised interest, depreciation and tax impacts	–	0,365	–	–	(1,802)	0,600	(0,837)
Pension interest allocation (other interest expense)	–	–	–	–	(0,210)	–	(0,210)
Net adjustments	(8,644)	(3,619)	0,421	12,207	(2,012)	0,600	(1,047)

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 businesses retail activities.

TABLE 1B – Statement of comprehensive income

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Adjustments		Total appointed activities £m
				Total adjustments £m		
Profit for the year	108,147	(1,047)	1,687	(2,734)		105,413
Actuarial gains/(losses) on post employment plans	4,230	–	0,110	(0,110)		4,120
Other comprehensive income	(8,695)	–	–	–		(8,695)
Total comprehensive income for the year	103,682	(1,047)	1,797	(2,844)		100,838

Actuarial gains/losses are net of tax and allocated based on the deficit associated with the pension scheme member. This is applied 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 CONTINUED

TABLE 1C – Statement of financial position

The statement of financial position reflects the balance sheet as at 31 March 2020.

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Adjustments	Total appointed activities £m
				Total adjustments £m	
Non-current assets					
Fixed assets	3,088,958	(16,276)	5,235	(21,511)	3,067,447
Intangible assets	51,367	–	–	–	51,367
Investments – loans to Group companies	–	–	–	–	–
Investments – other	3,300	–	–	–	3,300
Financial instruments	–	–	–	–	–
Retirement benefit assets	7,070	–	0,229	(0,229)	6,841
Total non-current assets	3,150,695	(16,276)	5,464	(21,740)	3,128,955
Current assets					
Inventories	4,915	–	–	–	4,915
Trade & other receivables	145,190	–	2,026	(2,026)	143,164
Financial instruments	–	–	–	–	–
Cash & cash equivalents	284,064	–	1,933	(1,933)	282,131
Total current assets	434,169	–	3,959	(3,959)	430,210
Current liabilities					
Trade & other payables	(85,409)	25,698	0,247	25,451	(59,958)
Capex creditor	–	(23,747)	–	(23,747)	(23,747)
Borrowings	(57,939)	–	–	–	(57,939)
Financial instruments	(6,160)	–	–	–	(6,160)
Current tax liabilities	3,446	–	0,051	(0,051)	3,395
Provisions	(0,611)	(1,951)	–	(1,951)	(2,562)
Total current liabilities	(146,673)	–	0,298	(0,298)	(146,971)
Net current assets/(liabilities)	287,496	–	4,257	(4,257)	283,239
Non-current liabilities					
Trade & other payables	–	–	–	–	–
Borrowings	(2,533,366)	–	–	–	(2,533,366)
Financial instruments	(24,463)	–	–	–	(24,463)
Retirement benefit obligations	–	–	–	–	–
Provisions	–	–	–	–	–
Deferred income – G&Cs	–	–	–	–	–
Deferred income – adopted assets	(122,870)	–	–	–	(122,870)
Preference share capital	–	–	–	–	–
Deferred tax	(263,834)	3,092	(0,442)	3,534	(260,300)
Total non-current liabilities	(2,944,533)	3,092	(0,442)	3,534	(2,940,999)
Net assets	493,658	(13,184)	9,279	(22,463)	471,195
Equity					
Called up share capital	250,923	–	–	–	250,923
Retained earnings & other reserves	242,735	(13,184)	9,279	(22,463)	220,272
Total equity	493,658	(13,184)	9,279	(22,463)	471,195

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 reflects the balance sheet as at 31 March 2020.

Both statutory financial statements and Regulatory Reporting are 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	Current/ non-current provisions £m	Deferred tax £m	Net assets £m
Reallocation of capital creditors	–	(23,747)	23,747	–	–	–
Cumulative capitalised interest, depreciation and tax impact ¹	(16,276)	–	–	–	3,092	(13,184)
Deferred income reallocated to provisions	–	(1,951)	–	1,951	–	–
Total	(16,276)	(25,698)	23,747	1,951	3,092	(13,184)

¹ Cumulative capitalised interest of £17,359m and depreciation of £1,083m.

Impact of IFRS 16

The balance sheet includes £31.9m of property, plant and equipment and £36.1m of liabilities recognised as a result of the implementation of IFRS 16.

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 surplus.

Retirement benefit obligations are allocated based on the surplus 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.

REGULATORY REPORTING CONTINUED

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	
Statement of cash flows					
Operating profit	242,237	(11,842)	1,416	(13,258)	228,979
Other income	–	12,207	0,660	11,547	11,547
Depreciation	118,767	(0,365)	(0,337)	(0,028)	118,739
Amortisation – G&Cs	–	–	–	–	–
Changes in working capital	(44,054)	32,394	(1,549)	33,943	(10,111)
Pension contributions	–	(32,394)	(0,841)	(31,553)	(31,553)
Movement in provisions	2,525	–	–	–	2,525
Profit on sale of fixed assets	(0,421)	–	–	–	(0,421)
Cash generated from operations	319,054	–	(0,651)	0,651	319,705
Net interest paid	(57,734)	(2,012)	–	(2,012)	(59,746)
Tax paid	(43,618)	–	(0,475)	0,475	(43,143)
Net cash generated from operating activities	217,702	(2,012)	(1,126)	(0,886)	216,816
Investing activities					
Capital expenditure	(172,200)	2,012	–	2,012	(170,188)
Grants & contributions	3,621	–	–	–	3,621
Disposal of fixed assets	0,585	–	–	–	0,585
Other	–	–	–	–	–
Net cash used in investing activities	(167,994)	2,012	–	2,012	(165,982)
Net cash generated before financing activities	49,708	–	(1,126)	1,126	50,834
Cash flows from financing activities					
Equity dividends paid	(249,700)	–	–	–	(249,700)
Net loans received	131,326	–	–	–	131,326
Cash inflow from equity financing	–	–	–	–	–
Net cash generated from financing activities	(118,374)	–	–	–	(118,374)
Increase/(decrease) in net cash	(68,666)	–	(1,126)	1,126	(67,540)

Commentary for the adjustments within the statement of cash flows to reconcile from the statutory financial statements to Regulatory Reporting has 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)	1,214.448	800.619	576.238	2,591.305
Preference share capital				–
Total borrowings				2,591.305
Cash				(31.252)
Short-term deposits				(250.879)
Net debt				2,309.174
Gearing				64.64%
Adjusted gearing				64.58%
Full year equivalent nominal interest cost	22.077	6.780	25.166	54.023
Full year equivalent cash interest payment	22.077	6.780	10.709	39.566
Indicative interest rates				
Indicative weighted average nominal interest rate	1.94%	0.92%	4.51%	2.22%
Indicative weighted average cash interest rate	1.94%	0.92%	1.92%	1.63%
Weighted average years to maturity	14.84	20.16	26.63	19.16

South West Water does not have any preference share capital.

The table above reflects the position of the appointed business and excludes the £1.933m of non-appointed cash assumed within short-term deposits. RCV at 31 March 2020 was £3,572.5m resulting in a gearing ratio of 64.64% for the appointed business. SWW Group net debt as at 31 March 2020 was 62.3%.

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).

REGULATORY REPORTING CONTINUED

**TABLE 1F – Financial flows for the 12 months ended 31 March 2020
(2012-13 financial year average RPI)**

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
Return on regulatory equity	5.781	5.891	5.781	64.986	66.223	66.223
Actual performance adjustment 2010-15	(0.361)	(0.368)	(0.361)	(4.058)	(4.135)	(4.135)
Adjusted Return on regulatory equity	5.420	5.523	5.420	60.928	62.088	62.088
Regulatory equity (£m)	1,124.138	1,124.138	1,145.533	-	-	-
Financing						
Gearing	-	(0.057)	(0.057)	-	(0.650)	(0.650)
Variance in corporation tax	-	(0.659)	(0.647)	-	(7.411)	(7.411)
Group relief	-	-	-	-	-	-
Cost of debt	-	3.715	3.615	-	41.757	41.411
Hedging instruments	-	(1.021)	(1.002)	-	(11.475)	(11.475)
Financing total	5.420	7.501	7.330	60.928	84.309	83.963
Operational performance						
Totex out / (under) performance	-	2.723	2.672	-	30.606	30.606
ODI out / (under) performance	-	0.181	0.178	-	2.038	2.038
Retail out / (under) performance	-	0.707	0.693	-	7.943	7.943
Other exceptional items	-	-	-	-	-	-
Operational performance total	-	3.610	3.543	-	40.587	40.587
Total earnings	5.420	11.111	10.873	60.928	124.896	124.550
RCV growth from RPI inflation	2.577	2.577	2.577	28.969	28.969	29.520
Total shareholder return	7.997	13.688	13.450	89.897	153.865	154.070
Net dividend	4.000	18.704	18.355	44.966	210.260	210.260
Retained value	3.997	(5.016)	(4.905)	44.932	(56.395)	(56.190)
Dividends reconciliation						
Gross dividend	4.000	18.704	18.355	44.966	210.260	210.260
Interest received on intercompany loans	-	-	-	-	-	-
Net dividend	4.000	18.704	18.355	44.966	210.260	210.260

Our actual average gearing ratio over the five years of the regulatory period has been broadly consistent with the Ofwat notional gearing ratio of 62.5%.

The actual tax charge has been significantly higher than allowed in the Final Determination. This is due to a number of factors. South West Water, as part of the Pennon Group has been awarded the Fair Tax Mark which is the UK's accreditation scheme for businesses paying their fair share of tax and reporting on practices transparently.

South West Water pays pound for pound for any Group relief that is utilised, therefore there is no impact on the Company.

South West Water's cost of debt has been lower than the final determination due primarily to lower interest rates and RPI than had been anticipated at the start of the regulatory period as well as robust management of borrowing requirements.

Our operational performance over the regulatory period has been strong, reflected in the outperformance we have achieved on totex, ODIs and retail, all of which have delivered benefits. If the special dividends were excluded, retained value would be £53.279m.

We have no exceptional items to disclose for the period from 2015-20. The sale of our non-household debt was carried out at book value generating no profit or loss.

**TABLE 1F – Financial flows for the Price Review to date
(2012-13 financial year average RPI)**

	Average 2015-20					
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
Return on regulatory equity	5.816	6.060	5.816	65.090	67.827	67.827
Actual performance adjustment 2010-15	(0.531)	(0.553)	(0.531)	(5.943)	(6.193)	(6.193)
Adjusted Return on regulatory equity	5.285	5.507	5.285	59.148	61.634	61.634
Regulatory equity (£m)	1119.161	1119.161	1166.209	-	-	-
Financing						
Gearing	-	(0.129)	(0.129)	-	(1.509)	(1.509)
Variance in corporation tax	-	(0.779)	(0.748)	-	(8.718)	(8.718)
Group relief	-	-	-	-	-	-
Cost of debt	-	3.775	3.573	-	42.243	41.674
Hedging instruments	-	(1.105)	(1.061)	-	(12.371)	(12.371)
Financing total	5.285	7.268	6.921	59.148	81.279	80.710
Operational performance						
Totex out / (under) performance	-	2.707	2.598	-	30.299	30.299
ODI out / (under) performance	-	0.254	0.244	-	2.843	2.843
Retail out / (under) performance	-	0.318	0.305	-	3.559	3.559
Other exceptional items	-	-	-	-	-	-
Operational performance total	-	3.279	3.147	-	36.701	36.701
Total earnings	5.285	10.547	10.068	59.148	117.980	117.411
RCV growth from RPI inflation	2.516	2.516	2.516	28.158	28.158	29.342
Total shareholder return	7.801	13.063	12.584	87.306	146.138	146.753
Net dividend	4.000	12.350	11.852	44.766	138.220	138.220
Retained value	3.801	0.713	0.732	42.539	7.918	8.533
Dividends reconciliation						
Gross dividend	4.000	12.350	11.852	44.766	138.220	138.220
Interest received on intercompany loans	-	-	-	-	-	-
Net dividend	4.000	12.350	11.852	44.766	138.220	138.220

Dividends to our parent company, Pennon Group plc, reflect a base dividend and an outperformance dividend based on the performance of the Company compared to the Final Determination from 2014. It also includes a special dividend relating to balance sheet considerations. Excluding the special dividends, retained value over the period 2015-20 would be £48.886m.

South West Water's dividend policy is included on pages 127 to 128.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

TABLE 2A – Segmental income statement

	Retail				Water total £m	Wastewater Network+ £m	Sludge £m	Wholesale	
	Household £m	Non- household £m	Water resources £m	Water Network+ £m				Wastewater total £m	Total £m
Revenue – price control	40.061	–		233.377	233.377	274.429		274.429	547.867
Revenue – non price control	–	–		2.940	2.940	1.353		1.353	4.293
Operating expenditure	(28.156)	–	(10.638)	(77.749)	(88.387)	(75.372)	(13.622)	(88.994)	(205.573)
Depreciation – tangible fixed assets	(1.786)	–	(3.933)	(43.404)	(47.337)	(63.261)	(5.243)	(68.504)	(117.627)
Amortisation – intangible fixed assets	(0.318)	–	(0.004)	(0.081)	(0.085)	(0.028)	(0.007)	(0.035)	(0.438)
Other operating income	–	–	–	0.240	0.240	0.014	0.167	0.181	0.421
Operating profit before recharges	9.802	–			100.748			118.430	228.980
Recharges from other segments	(1.647)	–	–	–	–	–	–	–	(1.647)
Recharges to other segments	–	–	0.077	0.727	0.804	0.633	0.210	0.843	1.647
Operating profit	8.155	–			101.552			119.273	228.980
Surface water drainage rebates									5.425

Revenue – price control

This includes all wholesale water and waste water charges, trade effluent income and household retail charges.

Revenue – non price control

This has been based on the RAG 4.08 revenue appendix and includes mains and sewer diversions, standpipe hire and other rechargeable works.

Operating expenditure

Operating costs allocations (including depreciation) are calculated using the methodology outlined on page 127.

Other operating income

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 business segments reflect charges for the use of assets, and are equal to the depreciation charged in respect of management and general assets principally used by the 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 costs in table 1A. The equivalent charge of £0.337m in respect of non-appointed activities has been deducted from operating expenditure. Management and general asset categories used across segments are principally information technology hardware and software, and vehicles.

Surface water rebates

Surface water rebates reflects 78,000 customers where there is no connection to the South West Water wastewater network for surface water (i.e. rainwater which falls on an impermeable area of a property such as its roof, drive, hardstanding area or car park).

TABLE 2B – Totex analysis – wholesale

	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Total £m
Operating expenditure					
Power	2,103	14,166	19,266	1,306	36,841
Income treated as negative expenditure	(0,602)	(0,144)	–	(0,426)	(1,172)
Abstraction charges/discharge consents	4,599	0,319	4,000	–	8,918
Bulk supply/Bulk discharge	–	–	–	–	–
Other operating expenditure					
– Renewals expensed in year (Infrastructure)	–	3,536	11,464	–	15,000
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–
– Other operating expenditure excluding renewals	2,369	37,879	34,676	11,957	86,881
Local authority and Cumulo rates	2,169	20,453	5,424	0,785	28,831
Total operating expenditure excluding third party services	10,638	76,209	74,830	13,622	175,299
Third party services	–	1,540	0,542	–	2,082
Total operating expenditure	10,638	77,749	75,372	13,622	177,381
Capital expenditure					
Maintaining the long-term capability of the assets – infra	0,440	15,513	4,980	–	20,933
Maintaining the long-term capability of the assets – non-infra	3,165	42,289	29,986	6,185	81,625
Other capital expenditure – infra	2,139	10,551	9,823	–	22,513
Other capital expenditure – non-infra	1,093	10,076	18,329	(0,070)	29,428
Infrastructure network reinforcement	–	0,098	4,343	–	4,441
Total gross capital expenditure excluding third party services	6,837	78,527	67,461	6,115	158,940
Third party services	–	–	–	–	–
Total gross capital expenditure	6,837	78,527	67,461	6,115	158,940
Grants and contributions	–	11,081	8,028	–	19,109
Totex	17,475	145,195	134,805	19,737	317,212
Pension deficit recovery payments	0,572	12,461	11,395	2,269	26,697
Total					
Totex including cash items	18,047	157,656	146,200	22,006	343,909

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 project reporting 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

Capital expenditure reflects expenditure 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 assets adopted at fair value but includes the gross value, before the deduction of grants and contributions, of assets wholly or partly financed by third parties including developers.

The increase in expenditure of £8.209m (2019/20 £158.940m, 2018/19 £150.731m) was mainly in the maintenance and enhancement non-infra lines and was offset by a reduction in the enhancement infra spend. This was reflective of the programme spending in key areas (pollutions and ODI) ahead of the start of AMP7 as well as increased spend on capital maintenance and reactive programmes of work.

Grants and contributions allocations are based on the relevant connection charges, infrastructure charges, and contributions in respect of requisitioned mains and are consistent with those reported in table 2E. Infrastructure network reinforcement expenditure is analysed in more detail in table 2J.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING CONTINUED

TABLE 2C – Operating cost analysis – retail

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	10.470	–	10.470
Debt management	2.117	–	2.117
Doubtful debts	10.500	–	10.500
Meter reading	0.756	–	0.756
Services to developers	–	–	–
Other operating expenditure	4.308	–	4.308
Total operating expenditure excluding third party services	28.151	–	28.151
Third party services operating expenditure	0.005	–	0.005
Total operating expenditure	28.156	–	28.156
Depreciation – tangible fixed assets	1.786	–	1.786
Amortisation – intangible fixed assets	0.318	–	0.318
Total operating costs	30.260	–	30.260
Debt written off	5.466	–	5.466

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 in the accounting separation methodology on page 17 available from the website www.southwestwater.co.uk.

Doubtful debt includes a non-underlying £2.8m charge due to COVID-19.

Further commentary on the performance of the retail business is included on page 50.

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 regulatory disclosures on page 129.

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	
Cost							
At 1 April 2019	128.923	1,907.697	2,446.423	142.625	25.009	–	4,650.677
Disposals	(0.061)	(1.180)	(0.618)	(0.054)	–	–	(1.913)
Additions	6.837	78.047	63.912	6.115	0.962	–	155.873
Adjustments (IFRS 16 assets)	0.232	14.442	17.266	–	–	–	31.940
Assets adopted at nil cost	–	1.567	6.531	–	–	–	8.098
At 31 March 2020	135.931	2,000.573	2,533.514	148.686	25.971	–	4,844.675
Depreciation							
At 1 April 2019	(39.113)	(580.166)	(932.676)	(84.247)	(21.444)	–	(1,657.646)
Disposals	0.054	1.072	0.578	0.047	–	–	1.751
Adjustments	(0.107)	(1.515)	(1.903)	(0.181)	–	–	(3.706)
Charge for the year	(3.933)	(43.404)	(63.261)	(5.243)	(1.786)	–	(117.627)
At 31 March 2020	(43.099)	(624.013)	(997.262)	(89.624)	(23.230)	–	(1,777.228)
Net book amount at 31 March 2020	92.832	1,376.560	1,536.252	59.062	2.741	–	3,067.447
Net book amount at 1 April 2019	89.810	1,327.531	1,513.747	58.378	3.565	–	2,993.031
Depreciation charge for year							
Principal services	(3.933)	(43.404)	(63.261)	(5.243)	(1.786)	–	(117.627)
Third party services	–	–	–	–	–	–	–
Total	(3.933)	(43.404)	(63.261)	(5.243)	(1.786)	–	(117.627)

Fixed assets have been allocated based upon their principal use. For assets which are used across the business units (i.e. management and general), they have been assumed to have principal use within wholesale and then allocated between water and wastewater.

The net book value includes £119.0m in respect of assets in the course of construction.

Of the total depreciation charge for the Company of £122.5m, the sum of £2.6m has been charged to capital projects, £1.7m has been offset by deferred income and £118.2m against profits, with £0.3m of depreciation on assets used by the non-appointed business charged through operating costs.

Additions in the year include assets acquired as a result of new connections, in accordance with IFRIC 18 these assets are recognised at fair value which is their cost excluding administration costs.

The total fair value of assets adopted at nil cost in the year was £1.6m in water and £6.5m in wastewater. In total, cumulative adopted assets have a value of £133.1m before deducting depreciation.

IFRS 16 ROU (right of use assets) were adopted as at 1 April 2019 to offset the lease liabilities which were added to the balance sheet. The total value of these was £31.9m which was allocated to water £14.7m and wastewater £17.2m.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING CONTINUED

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
Grants and contributions – water				
Connection charges (s45)	5,265	–	–	5,265
Infrastructure charge receipts (s146)	2,380	–	–	2,380
Requisitioned mains (s43, s55 & s56)	–	–	0,480	0,480
Other contributions (price control)	–	–	–	–
Diversions (s185)	2,636	–	–	2,636
Other contributions (non-price control)	0,320	–	–	0,320
Total	10,601	–	0,480	11,081
Value of adopted assets	–	1,567	–	1,567
Grants and contributions – wastewater				
Infrastructure charge receipts (s146)	3,902	–	–	3,902
Requisitioned sewers (s100)	–	–	2,218	2,218
Other contributions (price control)	0,121	–	1,331	1,452
Diversions (s185)	0,442	–	–	0,442
Other contributions (non-price control)	0,014	–	–	0,014
Total	4,479	–	3,549	8,028
Value of adopted assets	–	6,531	–	6,531

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 for the related assets.

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 chargeable works, such as planning application costs, buildover applications and changes for remedial work. Other wastewater contributions (price control) for the year similarly relate to network modelling activities for pre-development enquiries and related charges for inspection of sewer connections.

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 includes a contribution from Defra towards the costs of a specific Upstream Thinking project.

	Water £m	Wastewater £m	Total £m
Movements in capitalised grants and contributions			
Brought forward	–	–	–
Capitalised in year	–	–	–
Amortisation (in income statement)	–	–	–
Carried forward	–	–	–
Land sales			
Proceeds from disposals of protected land	0,239	–	0,239

The Thames Tideway Tunnel (TTT) is not within the Company's area of operations.

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 no sales where the net proceeds exceeded £0.500m.

No sales of protected land were 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	12.450	1.342	13.792	30.801	44
Unmeasured wastewater only customer	1.053	0.100	1.153	2.235	45
Unmeasured water and wastewater customer	79.179	5.500	84.679	99.661	55
Measured water only customer	10.416	1.415	11.832	34.133	41
Measured wastewater only customer	0.702	0.084	0.785	2.682	31
Measured water and wastewater customer	259.534	26.651	286.185	607.162	44
Total	363.334	35.091	398.426	776.674	45

TABLE 2F – Household – revenues by customer type for Bournemouth 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	7.201	1.376	8.577	52.474	26
Measured water only customer	16.655	3.595	20.250	141.441	25
Total	23.856	4.970	28.827	193.915	26

PRICE REVIEW AND OTHER SEGMENTAL REPORTING CONTINUED

TABLE 2G – Non-household water – revenues by customer type

	Wholesale charges revenue £m	Total revenue £m	Number of connections (000s)
Non-default tariffs			
BOURNEMOUTH WATER			
Total non-default tariffs (MNPW*)	4.898	4.898	0.003
Default tariffs			
SOUTH WEST WATER			
Standard Unmeasured Water (UW*)	1.166	1.166	2.044
Standard Measured Water (MW*)	43.906	43.906	62.250
Large & Special User 50-100ML Water (HW1*)	4.527	4.527	0.028
Large & Special User 100-150ML Water (HW2*)	2.086	2.086	0.007
Large & Special User 150+ML Water (HW3*)	1.076	1.076	0.002
Special agreements	0.002	0.002	0.063
BOURNEMOUTH WATER			
Standard Unmeasured Water (UW*)	0.119	0.119	0.718
Standard Measured Water (NHH1*)	1.956	1.956	10.846
Large User 0.75-2ML Water (NHH2*)	1.100	1.100	0.919
Large User 2-4ML Water (NHH3*)	1.037	1.037	0.332
Large User 4-5ML Water (NHH4*)	1.529	1.529	0.221
Large User 10-50ML Water (NHH5*)	1.161	1.161	0.061
Large User 50M+L Water (NHH6*)	0.301	0.301	0.004
Total default tariffs	59.966	59.966	77.495
Total	64.864	64.864	77.498

* References are to the principal Central Market Operating System (CMOS) tariff codes.

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.

TABLE 2H – Non-household wastewater – revenues by customer type for South West Water

	Wholesale charges revenue £m	Total revenue £m	Number of connections (000s)
Non-default tariffs			
Total non-default tariffs	–	–	–
Default tariffs			
Standard Unmeasured Sewerage	1,788	1,788	1,676
Standard Measured Sewerage	42,837	42,837	40,885
Large & Special User 50-100ML Sewerage (HS1*)	1,511	1,511	0,006
Large & Special User 100+ML Sewerage (HS2*)	1,140	1,140	0,002
Special Agreements Sewerage	2,446	2,446	0,059
Trade Effluent	6,030	6,030	0,636
Total default tariffs	55,752	55,752	43,264
Total	55,752	55,752	43,264

* References are to the principal Central Market Operating System (CMOS) tariff codes.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING CONTINUED

TABLE 2I – Revenue analysis & wholesale control reconciliation for South West Water

	Household £m	Non-household £m	Total £m
Wholesale charge – water			
Unmeasured	40.306	1.166	41.473
Measured	104.351	51.597	155.948
Third party revenue	–	–	–
Total	144.657	52.763	197.420
Wholesale charge – wastewater			
Unmeasured	52.376	1.788	54.164
Measured	166.301	53.964	220.265
Third party revenue	–	–	–
Total	218.677	55.752	274.430
Wholesale total	363.334	108.516	471.850
Retail revenue			
Unmeasured	6.941	–	6.941
Measured	28.149	–	28.149
Other third party revenue	–	–	–
Retail total	35.090	–	35.090
Third party revenue – non-price control			
Bulk supplies – water			0.052
Bulk supplies – wastewater			0.028
Other third party revenue			4.176
Total third party revenue – non-price control			4.256
Principal services – non-price control			
Other appointed revenue			–
Total appointed revenue			511.196

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.

TABLE 2I – Revenue analysis & wholesale control reconciliation for South West Water continued

	Water £m	Wastewater £m	Total £m
Wholesale revenue governed by price control	197,420	274,430	471,850
Grants & contributions	7,042	6,909	13,950
Total revenue governed by wholesale price control	204,462	281,338	485,800
Amount assumed in wholesale determination	216,943	290,995	507,938
Adjustment for in-period ODI revenue	0,757	(1,155)	(0,398)
Adjustment for WRFIM	(12,533)	(14,968)	(27,501)
Total assumed revenue	205,167	274,872	480,039
Difference	(0,705)	6,466	5,761

The original revenue assumed in the wholesale determination (£507.9m) has been reduced by an adjustment for WRFIM (£27.5m), to reflect an over recovery of revenue in the financial year ended 31 March 2018. There is also a net adjustment to allowed revenue of -£0.4m for in period ODI rewards and penalties. Commentary on appointed revenue and the comparison with the 2014 Final Determination is included on page 53.

As a wholesaler within the non-household market, which opened on 1 April 2017, we currently work with 20 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.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING CONTINUED

TABLE 2I – Revenue analysis & wholesale control reconciliation for Bournemouth Water

	Household £m	Non-household £m	Total £m
Wholesale charge – water			
Unmeasured	7,201	0,119	7,320
Measured	16,655	7,084	23,739
Third party revenue	–	4,898	4,898
Total	23,856	12,101	35,957
Wholesale total	23,856	12,101	35,957
Retail revenue			
Unmeasured	1,375	–	1,375
Measured	3,595	–	3,595
Other third party revenue	–	–	–
Retail total	4,970	–	4,970
Third party revenue – non-price control			
Bulk supplies – water			–
Other third party revenue			0,037
Total third party revenue – non-price control			0,037
Principal services – non-price control			
Other appointed revenue			–
Total appointed revenue			40,964

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.

	Water £m	Total £m
Wholesale revenue governed by price control	35,957	35,957
Grants & contributions	1,084	1,084
Total revenue governed by wholesale price control	37,041	37,041
Amount assumed in wholesale determination	38,130	38,130
Adjustment for in-period ODI revenue	–	–
Adjustment for WRFIM	(1,711)	(1,711)
Total assumed revenue	36,419	36,419
Difference	0,623	0,623

The amount assumed in the wholesale determination is £38.4m less the small company premium of £0.247m, which has been passed back to customers through the annual tariffs as outlined during the company merger.

Table 2J – Infrastructure network reinforcement costs

	Network reinforcement capex £m
Wholesale water network+ (treated water distribution)	
Distribution and trunk mains	0.098
Pumping and storage facilities	–
Other	–
Total	0.098
Wholesale wastewater network+ (sewage collection)	
Foul and combined systems	3.320
Surface water only systems	0.874
Pumping and storage facilities	–
Other	0.149
Total	4.343

Infrastructure network reinforcement expenditure all relates to capacity enhancement, including new assets, relating to the treated water distribution and sewage collection business units. The values include expenditure on relevant non-infrastructure assets though there was no relevant expenditure on non-infrastructure assets this year. The items reported this year are water mains and sewers. There was no relevant expenditure on storage facilities such as clean water service reservoirs, water towers, or wastewater storage (attenuation) tanks. There was also no relevant expenditure on pressure management, district metering, valves, or pumping stations.

Within wastewater, the main items of expenditure relate to sewer flooding and the Downstream Thinking projects which deal with similar capacity issues affecting the performance of the sewer network including the ability to handle increased and peak flows and to accommodate demand arising from future development.

There was no relevant expenditure relating to assets constructed on sites owned by developers.

Table 2K – Infrastructure charges reconciliation for the 12 months ended 31 March 2020

	Water	Wastewater	Total
Impact of infrastructure charge discounts			
Infrastructure charges	2.380	3.902	6.282
Discounts applied to infrastructure charges	–	–	–
Gross infrastructure charges	2.380	3.902	6.282
Comparison of revenue and costs			
Variance brought forward			3.800
Revenue	2.380	3.902	6.282
Costs	(0.098)	(4.343)	(4.441)
Variance carried forward	2.282	(0.441)	5.641

This is a new table introduced following the introduction of the new developer services charging regime on 1 April 2018. The new charging regime requires an approximate matching of total relevant developer services income (Infrastructure charge receipts as reported in table 2E), since 1 April 2018, with infrastructure network reinforcement expenditure, taking account of both actual income and expenditure and income and expenditure forecast for the following five years.

Infrastructure network reinforcement expenditure is reported in the preceding table, table 2J, and covers capacity enhancements to treated water distribution and sewage collection assets, including some non-infrastructure assets such as service reservoirs and pumping stations.

The over recovery as at 31 March 2020 is attributable to high levels of private housebuilding combined with the timing of investment plans which will see increases in expenditure over the next regulatory period 2020-25.

PERFORMANCE SUMMARY

TABLE 3A – Outcome performance table for South West Water (2012/13 price base)

	Units	2019/20 performance level – actual	2019/20 PCL met?
W-A1 Compliance with water quality standard	%	99.98	Yes
W-A2 Taste, smell and colour contacts	nr/1,000 pop	1.90	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	0.190	Yes
W-B1 Water restrictions placed on customers (number)	nr	–	Yes
W-B2 Ability to move water around the network	text	Increased	Yes
W-B3 Leakage levels (megalitres a day, Ml/d)	nr	84	Yes
W-B4 Time taken to fix significant leaks (days)	nr	3.23	No
W-B5 Security of Supply Index (SoSI)	score	100	Yes
W-C1 Supplies interrupted due to flooded South West Water sites	nr	–	Yes
W-D1 Operational customer contacts resolved first time (%)	%	96.2	Yes
W-E1 Sustainable abstractions (EA/WFD classification)	nr	–	Yes
W-E2 Sustainable abstractions (Environment Agency water stress status)	category	Moderate	Yes
W-E3a Catchment management (number of acres)	nr	10,655	Yes
W-E3b Catchment management (number of farms)	nr	1,604	Yes
W-E4 Pollution incidents (category 1 and 2)	nr	–	Yes
W-E5 Pollution incidents (category 3 and 4)	nr	10	No
W-E6 Operational carbon emissions (ktCO ₂ e)	nr	46.4	Yes
W-E7 Energy from renewable sources (%)	%	15.80	Yes
W-F1 Customers paying a metered bill	%	83.3	No
S-A1 Internal sewer flooding incidents	nr	160	No
S-A2 External sewer flooding incidents	nr	2,897	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 (%)	%	99.55	No
S-B1 Operational customer contacts resolved first time (%)	%	93.6	No
S-C1 Wastewater treatment numeric compliance (%)	%	98.7	No
S-C2 Wastewater population equivalent sanitary compliance (%)	%	100.0	Yes
S-C3 Wastewater descriptive works permit compliance (%)	%	99.4	No
S-C4 Pollution incidents (category 1 and 2)	nr	1	No
S-C5 Pollution incidents (category 3 and 4)	nr	286	No
S-C6 Operational carbon emissions (ktCO ₂ e)	nr	71.5	Yes
S-C7 Energy from renewable sources (%)	%	8.77	Yes
S-D1 Bathing water quality	nr	–	Yes
S-D2 Combined sewer overflow spills (number)*	nr	N/A	N/A
S-D3 River water quality improved (km)	nr	659	Yes
R-A1 Customer overall satisfaction (%)	%	90.0	Yes
R-A2 Service incentive mechanism (SIM)	score	N/A	N/A
R-A3 Customer satisfaction with value for money	%	60.0	No
R-B1 Customers assisted by water poverty initiatives	nr	31,912	Yes

* 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.

*** This figure includes an adjustment to previous years' penalty resulting from re-classification of extreme weather events.

	2019-20 outperformance payment or underperformance payment – in-period ODIs (indicator)	2019-20 outperformance payment or underperformance payment – in-period ODIs (£m, to 4 dp)	2019-20 outperformance payment or underperformance payment – ODIs payable at the end of AMP6 (indicator)	2019-20 outperformance payment or underperformance payment – ODIs payable at the end of AMP6 (£m, to 4 dp)	31 March 2020 forecast – total AMP6 outperformance payment or underperformance payment (indicator)	31 March 2020 forecast – total AMP6 outperformance payment or underperformance payment (£m, to 4 dp)	See Page
	N/A	N/A	N/A	N/A			14
Outperformance Payment		0.1133	N/A	N/A			15
	N/A	N/A	N/A	N/A			16
	N/A	N/A	N/A	N/A			16
	N/A	N/A	Outperformance Payment	0.0650			14
	N/A	N/A	Outperformance Payment	1.6240			18
	N/A	N/A	N/A	N/A			N/A
	N/A	N/A	N/A	N/A			18
	N/A	N/A	N/A	N/A			19
	N/A	N/A	N/A	N/A			19
	N/A	N/A	N/A	N/A			27
Outperformance Payment		0.0516	N/A	N/A			25
	N/A	N/A	N/A	N/A			35
	N/A	N/A	N/A	N/A			35
	N/A	N/A	N/A	N/A			37
	N/A	N/A	N/A	N/A			37
	N/A	N/A	N/A	N/A			35
Underperformance Payment		(0.0220)	N/A	N/A			35
	N/A	N/A	N/A	N/A			36
	N/A	N/A	N/A	N/A			36
	N/A	N/A	Underperformance Payment	(0.2848)			47
	N/A	N/A	Underperformance Deadband	N/A			32
	N/A	N/A	N/A	N/A			32
	N/A	N/A	Outperformance Payment	0.1276			32
	N/A	N/A	N/A	N/A			33
	N/A	N/A	N/A	N/A			33
	N/A	N/A	N/A	N/A			33
Underperformance Payment		(0.0714)	N/A	N/A			25
	N/A	N/A	Underperformance Payment	(0.0888)			34
	N/A	N/A	N/A	N/A			34
Underperformance Deadband		N/A	N/A	N/A			34
Underperformance Deadband		N/A	N/A	N/A			35
Underperformance Payment		(1.1092)	N/A	N/A			35
	N/A	N/A	N/A	N/A			36
	N/A	N/A	N/A	N/A			36
	N/A	N/A	N/A	N/A			40
	N/A	N/A	N/A	N/A			N/A
	N/A	N/A	N/A	N/A			40
	N/A	N/A	N/A	N/A			24
	N/A	N/A	N/A	N/A			24
	N/A	N/A	N/A	N/A			24
	N/A	N/A	N/A	N/A			46

PERFORMANCE SUMMARY CONTINUED

TABLE 3A – Outcome performance table for Bournemouth Water (2012/13 price base)

	Units	2019/20 performance level – actual	2019/20 PCL met?
W-A1 Customer contacts: taste and appearance	nr/1,000 pop	1.01	Yes
W-A2 Water quality – mean zonal compliance	%	99.99	No
W-B1 Reduce leakage	l/d	18.30	Yes
W-B2 Large scale interruptions	thousands	22.2	Yes
W-B3 Decreasing average interruptions	time	3.2	Yes
W-B4 Maintain serviceable assets	category	Stable	Yes
W-B5 Metering	nr	9,317	Yes
W-B6 Reduce per capita consumption	ml/h/d	153.6	No
W-C1 Repairing visible leaks	%	65.0	No
W-D1 Reduce energy used in water delivery	kwh/l	615.68	No
W-D2 Supporting a natural water environment	Met/Not met	Met	Yes
W-E1 Contribute to our community	days	48	No
R-A1 Service Incentive Mechanism (SIM)	nr	N/A	N/A
R-A2 New customer relationship management system	£m	1.75	Yes
R-B1 Fair customer bills	%	3.04	Yes

2019-20 outperformance payment or underperformance payment – in-period ODIs (indicator)	2019-20 outperformance payment or underperformance payment – in-period ODIs (£m, to 4 dp)	2019-20 outperformance payment or underperformance payment – ODIs payable at the end of AMP6 (indicator)	2019-20 outperformance payment or underperformance payment – ODIs payable at the end of AMP6 (£m, to 4 dp)	31 March 2020 forecast – total AMP6 outperformance payment or underperformance payment (indicator)	31 March 2020 forecast – total AMP6 outperformance payment or underperformance payment (£m, to 4 dp)	See Page
N/A	N/A	N/A	N/A			15
N/A	N/A	Underperformance Deadband	N/A			14
N/A	N/A	Outperformance Payment	0.6208			18
N/A	N/A	Outperformance Payment	1.0192			20
N/A	N/A	N/A	N/A			20
N/A	N/A	N/A	N/A			16
N/A	N/A	N/A	N/A			47
N/A	N/A	N/A	N/A			32
N/A	N/A	Underperformance Payment	(0.0075)			25
N/A	N/A	N/A	N/A			36
N/A	N/A	N/A	N/A			37
N/A	N/A	N/A	N/A			42
N/A	N/A	N/A	N/A			24
N/A	N/A	N/A	N/A			24
N/A	N/A	N/A	N/A			47

PERFORMANCE SUMMARY CONTINUED

TABLE 3B – Sub-measure performance table for South West Water

	Unit	2019/20 performance level – actual	2019/20 PCL met?
W-A3(i) Asset reliability (pipes) – Total bursts	nr	1,929	Yes
W-A3(ii) Asset reliability (pipes) – Interruptions > 12 hours	nr	1,078	Yes
W-A3(iii) Asset reliability (pipes) – Iron non-compliance	%	–	Yes
W-A3(iv) Asset reliability (pipes) – DG2 Pressure	nr	110	Yes
W-A3(v) Asset reliability (pipes) – Customer contacts – discolouration	nr	1.47	Yes
W-A3(vi) Asset reliability (pipes) – Distribution index TIM	%	0.04	Yes
W-A4(i) Asset reliability (process) – WTW coliforms non-compliance	%	0.04	Yes
W-A4(ii) Asset reliability (process) – Service reservoir coliforms non-compliance	%	–	Yes
W-A4(iii) Asset reliability (process) – Turbidity non-compliance	nr	–	Yes
W-A4(iv) Asset reliability (process) – Enforcement incidents	nr	–	Yes
W-A4(v) Asset reliability (process) – Unplanned maintenance	nr	2,716	Yes
S-A4(i) Asset reliability (pipes) – Sewer collapses	nr	130	Yes
S-A4(ii) Asset reliability (pipes) – Pollution incidents (CSO+RM+FS)	nr	83	Yes
S-A4(iii) Asset reliability (pipes) – Properties flooded due to other causes	nr	64	Yes
S-A4(iv) Asset reliability (pipes) – Properties flooded due to overloaded sewers	nr	14	Yes
S-A4(v) Asset reliability (pipes) – Sewer blockages	nr	2,731	Yes
S-A4(vi) Asset reliability (pipes) – Equipment failures	nr	202	Yes
S-A5(i) Asset reliability – Sewage Treatment works (STW)	%	1.31	Yes
S-A5(ii) Asset reliability – Population equivalent (PE)	%	–	Yes
S-A5(iii) Unplanned maintenance	nr	6,414	Yes

TABLE 3B – Sub-measure performance table for Bournemouth Water

	Unit	2019/20 performance level – actual	2019/20 PCL met?
Serviceability of assets – infrastructure: Total bursts	nr	261	Yes
Serviceability of assets – infrastructure: Interruptions > 12 hours	nr	7	Yes
Serviceability of assets – infrastructure: Iron non-compliance (as 100-Mean Zonal)	%	–	Yes
Serviceability of assets – infrastructure: DG2 pressure	nr	–	Yes
Serviceability of assets – infrastructure: Customer contacts – discolouration	nr	0.44	Yes
Serviceability of assets – non-infrastructure: Water treatment works coliforms non-compliance	%	–	Yes
Serviceability of assets – non-infrastructure: Service reservoir coliforms non-compliance	%	–	Yes
Serviceability of assets – non-infrastructure: Turbidity	nr	–	Yes
Serviceability of assets – non-infrastructure: Enforcement incidents	nr	–	Yes
Serviceability of assets – non-infrastructure: Unplanned maintenance	nr	132	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 proxy table for South West Water

	Units	Score
Qualitative performance		
1st survey score	score	N/A
2nd survey score	score	N/A
3rd survey score	score	N/A
4th survey score	score	N/A
Qualitative SIM score (out of 75)	score	N/A
Quantitative performance		
Total contact score	score	N/A
Quantitative SIM score (out of 25)	calc	N/A
SIM proxy score		
Total annual SIM proxy score (out of 100)	calc	82.2

TABLE 3D – SIM proxy table for Bournemouth Water

	Units	Score
Qualitative performance		
1st survey score	score	N/A
2nd survey score	score	N/A
3rd survey score	score	N/A
4th survey score	score	N/A
Qualitative SIM score (out of 75)	calc	N/A
Quantitative performance		
Total contact score	score	N/A
Quantitative SIM score (out of 25)	calc	N/A
SIM proxy score		
Total annual SIM proxy score (out of 100)	calc	90.3

SIM (Service Incentive Mechanism) and SIM proxy, an industry-wide measure of customer service, performance has improved in both operational areas. See pages 24 to 25 for further details concerning our customer service performance.

PERFORMANCE SUMMARY CONTINUED

TABLE 3S – Shadow reporting of new definition data

	Performance level
Leakage (Ml/d)	
South West Water	123.5
Supply interruptions (hours:mins:secs per property per year)	
All supply interruptions > 3 hours	0:09:10
Mains bursts (nr)	
Water mains bursts per 1,000 kilometres of pipe	119.2
Unplanned outage (%)	
Proportion of unplanned outage of the total Company production capacity	0.72
Per capita consumption (PCC) (litres/person/day)	
Per capita consumption	144.0
Risk of severe restrictions in a drought (%)	
Percentage of the population the Company serves that would experience severe supply restrictions (for example, standpipes or rota cuts) in a 1-in-200 year drought	–
Internal sewer flooding incidents (nr)	
Internal sewer flooding incidents, including sewer flooding due to severe weather events	160
External sewer flooding incidents (nr)	
External sewer flooding incidents, including sewer flooding due to severe weather events	1,923
Sewer collapses (nr)	
Sewer collapses per 1,000 kilometres of sewers	12.8
Risk of sewer flooding in a storm (%)	
Percentage of population at risk of sewer flooding in a 1-in-50 year storm	14.74
Vulnerability (%)	
Percentage of households registered for priority services (as of 31 March)	2.6
Percentage of households registered on the Priority Services Register contacted over the previous two years to ensure they are still receiving the right support (as of 31 March)	–

ADDITIONAL REGULATORY INFORMATION

TABLE 4A – Non-financial information for South West Water

	Current year	
	Unmeasured	Measured
Retail household		
Number of void households (000s)	4.444	3.242
Per capita consumption (excluding supply pipe leakage) l/h/d	283.83	123.39
	Water MI/d	Wastewater MI/d
Wholesale volume		
Bulk supply export	0.038	–
Bulk supply import	–	–
Distribution input	462.468	–

TABLE 4A – Non-financial information for Bournemouth Water

	Current year	
	Unmeasured	Measured
Retail household		
Number of void households (000s)	0.457	0.385
Per capita consumption (excluding supply pipe leakage) l/h/d	172.64	145.60
	Water MI/d	
Wholesale volume		
Bulk supply export	0.350	
Bulk supply import	0.840	
Distribution input	148.690	

Bulk supply exports relate to the supply of treated water to a neighbouring water company.

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4B – Wholesale totex analysis

	Current year		Cumulative 2015-20	
	Water £m	Wastewater £m	Water £m	Wastewater £m
Actual totex				
Actual totex	175.703	168.206	829.911	851.712
Items excluded from the menu				
Third party costs	1.540	0.542	18.063	8.408
Pension deficit recovery payments	13.033	13.664	27.408	26.549
Other 'Rule book' adjustments	0.653	0.755	4.296	6.427
Total items excluded from the menu	15.226	14.961	49.767	41.384
Transition expenditure				
Transition expenditure	-	-	1.614	0.908
Adjusted actual totex				
Adjusted actual totex	160.477	153.245	781.758	811.236
Adjusted actual totex base year prices	135.096	129.007	696.597	724.577
Allowed totex				
Allowed totex based on final menu choice – base year prices (totex for input to PAYG)	147.173	155.776	809.948	876.276

Actual totex in base year prices is calculated using actual average inflation, of 2.6% for 2019/20.

Commentary on the difference between actual totex and that allowed within the 2014 Final Determination is included on page 49.

Third party costs include both operational and capital expenditure consistent with table 2B.

TABLE 4C – Forecast impact of performance on RCV

	Water £m	Wastewater £m
Cumulative totex over/underspend so far in the price control period ¹	(113,349)	(151,701)
Customer share of cumulative totex over/underspend ¹	(50,390)	(68,114)
RCV element of cumulative totex over/underspend ²	(56,887)	(90,832)
Adjustment for ODI outperformance payment or underperformance payment ²	(2,806)	12,610
RCV determined at FD at 31 March ²	1,664,314	1,908,269
Projected 'shadow' RCV ²	1,604,621	1,830,047

1 Figures are in 12/13 price base.

2 Figures are in March FYE 2020 price base.

RCV adjustments based on PR14 reconciliation rulebook approach and using PR14 RCV adjustment model.

RCV element of totex underspend is based on specific pay-as-you-go ratios.

Cumulative totex outperformance excludes the pension deficit contributions with the underspend and is deflated to 12/13 prices.

Cumulative cost sharing rates are 44.4 : 55.6 for water and 44.9 : 55.1 for waste. The rate for water is a combination of the differing rates for South West Water and Bournemouth Water weighted by the level of totex underspend in each year in each area.

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 CONTINUED

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	
Operating expenditure							
Power	–	2,103	1,403	–	10,537	2,226	16,269
Income treated as negative expenditure	–	(0,602)	(0,103)	–	(0,041)	–	(0,746)
Abstraction charges/discharge consents	4,599	–	0,219	–	0,088	0,012	4,918
Bulk supply	–	–	–	–	–	–	–
Other operating expenditure							
– Renewals expensed in year (Infrastructure)	–	–	–	–	–	3,536	3,536
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–
– Other operating expenditure excluding renewals	0,040	2,329	0,931	–	18,777	18,171	40,248
Local authority and Cumulo rates	–	2,169	0,634	–	2,820	16,999	22,622
Total operating expenditure excluding third party services	4,639	5,999	3,084	–	32,181	40,944	86,847
Third party services	–	–	–	–	–	1,540	1,540
Total operating expenditure	4,639	5,999	3,084	–	32,181	42,484	88,387
Capital expenditure							
Maintaining the long-term capability of the assets – infra	–	0,440	1,469	–	–	14,044	15,953
Maintaining the long-term capability of the assets – non-infra	–	3,165	0,798	–	22,615	18,876	45,454
Other capital expenditure – infra	–	2,139	–	–	0,034	10,517	12,690
Other capital expenditure – non-infra	–	1,093	–	–	6,952	3,124	11,169
Infrastructure network reinforcement	–	–	–	–	–	0,098	0,098
Total gross capital expenditure (excluding third party)	–	6,837	2,267	–	29,601	46,659	85,364
Third party services	–	–	–	–	–	–	–
Total gross capital expenditure	–	6,837	2,267	–	29,601	46,659	85,364
Grants and contributions	–	–	–	–	–	11,081	11,081
Totex	4,639	12,836	5,351	–	61,782	78,062	162,670
Cash expenditure							
Pension deficit recovery payments	–	0,572	0,403	–	5,529	6,529	13,033
Other cash items	–	–	–	–	–	–	–
Totex including cash items	4,639	13,408	5,754	–	67,311	84,591	175,703

Total capital expenditure is £11,918m higher in 2019/20 (£85,364m) than in 2018/19 (£73,446m). The changes are largely explained by the increase in our distribution network, reactive expenditure and preparation for AMP7 projects and ODI expenditure,

Within these totals, expenditure reported for the water treatment unit has increased by £9,567m (2019/20 £29,601m, 2018/19 £20,034m) and treated water distribution increased by £1,374m (2019/20 £46,659m, 2018/19 £45,285m).

Expenditure on infrastructure investment related to new connections was £5,265m in 2019/20 (of £5,113m in 2018/19) and is included within 'Other capital expenditure – infra' line.

The approach to allocating costs between the water services is outlined on page 119 with a detailed methodology available on our website.

TABLE 4D – Wholesale totex analysis – water continued
2019/20 analysis

	Water resources				Network+	
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
Unit cost information (operating expenditure)						
Licensed volume available (MI)	472,605.790					
Volume abstracted (MI)		250,881.654				
Volume transported (MI)			240,773.466			
Average volume stored (MI)				1,011.000		
Distribution input volume – water treatment MI					223,683.828	
Distribution input volume – treated water MI						223,683.828
Unit cost (£/MI)	9.816	23.912	12.809	-	143.868	189.929
Population (000s)	2,214.821	2,214.821	2,214.821	2,214.821	2,214.821	2,214.821
Unit cost (£/pop)	2.095	2.709	1.392	-	14.530	19.182

The volume of water abstracted in the current year now reflects the inclusion of abstraction to impounding reservoirs and stream support. Prior year methodology was abstraction to Water Treatment Works only. If this methodology was applied to the prior year, the 2018-19 Volume abstracted would be 257,394.350MI (previously stated 238,881.77MI).

ADDITIONAL REGULATORY INFORMATION CONTINUED

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	
Operating expenditure									
Power	5,194	1,367	0,273	10,884	1,548	–	1,306	–	20,572
Income treated as negative expenditure	–	–	–	–	–	–	(0,426)	–	(0,426)
Discharge consents	0,980	0,261	–	2,759	–	–	–	–	4,000
Bulk discharge	–	–	–	–	–	–	–	–	–
Other operating expenditure									
– Renewals expensed in year (Infrastructure)	8,712	2,293	0,459	–	–	–	–	–	11,464
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	–
– Other operating expenditure excluding renewals	8,615	2,360	0,472	23,017	0,212	3,022	5,760	3,175	46,833
Local authority rates and Cumulo rates	0,086	0,023	0,005	5,310	–	–	0,785	–	6,209
Total operating expenditure excluding third party services	23,587	6,304	1,209	41,970	1,760	3,022	7,425	3,175	88,452
Third party services	0,428	0,114	–	–	–	–	–	–	0,542
Total operating expenditure	24,015	6,418	1,209	41,970	1,760	3,022	7,425	3,175	88,994
Capital expenditure									
Maintaining the long-term capability of the assets – infra	3,715	0,978	0,167	0,116	0,004	–	–	–	4,980
Maintaining the long-term capability of the assets – non-infra	5,095	1,341	0,229	22,450	0,871	–	6,185	–	36,171
Other capital expenditure – infra	7,467	1,966	0,336	0,052	0,002	–	–	–	9,823
Other capital expenditure – non-infra	2,710	0,714	0,122	14,231	0,552	–	(0,070)	–	18,259
Infrastructure network reinforcement	3,320	0,874	0,149	–	–	–	–	–	4,343
Total gross capital expenditure (excluding third party services)	22,307	5,873	1,003	36,849	1,429	–	6,115	–	73,576
Third party services	–	–	–	–	–	–	–	–	–
Total gross capital expenditure	22,307	5,873	1,003	36,849	1,429	–	6,115	–	73,576
Grants and contributions	6,354	1,674	–	–	–	–	–	–	8,028
Totex	39,968	10,617	2,212	78,819	3,189	3,022	13,540	3,175	154,542
Cash expenditure									
Pension deficit recovery payments	2,861	0,765	0,144	7,318	0,307	–	2,048	0,221	13,664
Other cash items	–	–	–	–	–	–	–	–	–
Totex including cash items	42,829	11,382	2,356	86,137	3,496	3,022	15,588	3,396	168,206

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
Unit cost information (operating expenditure)								
Volume collected – foul (MI)	87,239.800							
Volume collected – surface water drainage (MI)		84,587.200						
Volume collected – highway drainage (MI)			74,710.700					
BOD ¹ – sewage treatment and disposal (tonnes)				39,716.700				
BOD ¹ – imported sludge liquor treatment (tonnes)					576.848			
Volume transported – sludge transport (m ³)						343,256.830		
Dried solid mass treated – sludge treatment (ttds)							39,827.413	
Dried solid mass disposed – sludge disposal (ttds)								41,726.626
Unit cost (£/unit)	275.276	75.874	16.182	1,056.734	3,051.064	8.804	186.429	76.091
Population (000s)	1,757.517	1,757.517	1,757.517	1,757.517	1,757.517	1,757.517	1,757.517	1,757.517
Unit cost (£/pop)	13.664	3.652	0.688	23.880	1.001	1.719	4.225	1.807

¹ Biochemical Oxygen Demand.

The reduction in sewage collection capital expenditure between 2018/19 and 2019/20 is attributable to increased expenditure on maintenance and reactive works rather than planned projects as well as the AMP7 pollution reduction readiness and the NEP programme targeting GES Phosphorous schemes.

Sewage treatment £7.411m (2019/20 £38.728m, 2018/19 £30.867m) and sludge treatment £1.056m (2019/20 £6.115m, 2018/19 £5.059m) expenditure increased year on year which largely relate to the continuing programmes of capital maintenance investment.

The approach to allocating costs between the wastewater services is outlined on page 118 with a detailed methodology available on our website.

ADDITIONAL REGULATORY INFORMATION CONTINUED

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
Operating expenditure									
Customer services	0.898	0.024	1.075	1.997	1.894	0.029	6.550	8.473	10.470
Debt management	0.182	0.005	0.217	0.404	0.383	0.006	1.324	1.713	2.117
Doubtful debts	0.901	0.024	1.078	2.003	1.899	0.029	6.569	8.497	10.500
Meter reading	–	–	–	–	0.169	0.003	0.584	0.756	0.756
Other operating expenditure	0.370	0.010	0.442	0.822	0.779	0.012	2.695	3.486	4.308
Total operating expenditure excluding third party services	2.351	0.063	2.812	5.226	5.124	0.079	17.722	22.925	28.151
Third party services operating expenditure	–	–	–	–	0.001	–	0.003	0.005	0.005
Total operating expenditure	2.351	0.063	2.812	5.226	5.125	0.079	17.725	22.930	28.156
Depreciation – tangible fixed assets									
– on assets existing at 31 March 2015	0.035	0.060	0.042	0.137	0.014	0.001	0.253	0.268	0.405
– on assets acquired since 1 April 2015	0.119	0.204	0.142	0.465	0.049	0.004	0.863	0.916	1.381
Amortisation – intangible fixed assets									
– on assets existing at 31 March 2015	0.026	0.045	0.032	0.103	0.011	0.001	0.192	0.204	0.307
– on assets acquired since 1 April 2015	0.001	0.002	0.001	0.004	–	–	0.007	0.007	0.011
Total operating costs	2.532	0.374	3.029	5.935	5.199	0.085	19.040	24.325	30.260
Capital expenditure	0.083	0.142	0.099	0.324	0.034	0.003	0.601	0.638	0.962

Operating costs per customer type were allocated based on the number of customers within each type.

	Total £m
Demand-side efficiency and customer-side leaks analysis – household	
Demand-side water efficiency – gross expenditure	0.008
Demand-side water efficiency – expenditure funded by wholesale	–
Demand-side water efficiency – net retail expenditure	0.008
Customer-side leak repairs – gross expenditure	0.002
Customer-side leak repairs – expenditure funded by wholesale	–
Customer-side leak repairs – net retail expenditure	0.002

TABLE 4G – Wholesale current cost financial performance

	Water £m	Wastewater £m	Total £m
Revenue	236.317	275.782	512.099
Operating expenditure	(88.387)	(88.994)	(177.381)
Capital maintenance charges	(67.002)	(102.674)	(169.676)
Other operating income	0.240	0.181	0.421
Current cost operating profit	81.168	84.295	165.463
Other income	5.363	6.184	11.547
Interest income	1.047	1.207	2.254
Interest expense	(34.941)	(40.285)	(75.226)
Other interest expense	(0.110)	(0.100)	(0.210)
Current cost profit before tax and fair value movements	52.527	51.301	103.828
Fair value gains/(losses) on financial instruments	–	–	–
Current cost profit before tax	52.527	51.301	103.828

The Company does not have any financial instruments accounted for at fair value through the income statement.

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4H – Financial metrics

	Metric £m	AMP to date
Financial indicators		
Net debt	2,309.174	
Regulated equity	1,263.409	
Regulated gearing (%)	64.64	
Post tax return on regulated equity (%)	10.56	
RoRE (return on regulated equity) (%)	11.64	11.55
Dividend yield (%)	19.76	
Retail profit margin – household (%)	2.29	
Retail profit margin – non-household (%)	-	
Credit rating	n/a	
Return on RCV (%)	6.10	
Dividend cover (dec)	0.42	
Funds from operations (FFO)	226.927	
Interest cover (cash) (dec)	4.80	
Adjusted interest cover (cash) (dec)	2.10	
FFO/debt (dec)	0.10	
Effective tax rate (%)	14.70	
Free cash flow (RCF)	(22.773)	
RCF/capex (dec)	(0.13)	
Revenue and earnings		
Revenue (actual)	547.867	
EBITDA (actual)	342.331	

South West Water does not have a credit rating as this is not a licence requirement.

TABLE 4H – Financial metrics continued

	Metric %	AMP to date
Movement in RoRE		
Base return	5.76	5.90
Totex out/(under) performance	2.48	2.38
Retail cost out/(under) performance	0.39	0.22
ODI out/(under) performance	0.19	0.27
Financing out/(under) performance	2.82	2.78
Other factors	–	–
Regulatory return for the year	11.64	11.55

	%
Borrowings	
Proportion of borrowings which are fixed rate	46.87
Proportion of borrowings which are floating rate	30.90
Proportion of borrowings which are index linked	22.24
Proportion of borrowings due within 1 year or less	2.24
Proportion of borrowings due in more than 1 year but no more than 2 years	4.38
Proportion of borrowings due in more than 2 years but no more than 5 years	7.93
Proportion of borrowings due in more than 5 years but no more than 20 years	47.89
Proportion of borrowings due in more than 20 years	37.56

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 %
Interest rate swap (sterling)								
Floating to fixed rate	(12.399)	(17.834)	(0.390)	(30.623)	(30.623)	–	1.88	0.78
Total	(12.399)	(17.834)	(0.390)	(30.623)	(30.623)	–	–	–
Total financial derivatives	(12.399)	(17.834)	(0.390)	(30.623)	(30.623)	–	–	–

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.

ADDITIONAL REGULATORY INFORMATION CONTINUED

Table 4J – Atypical and non-atypical expenditure by business unit – wholesale water

	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	
Operating expenditure (excl. atypicals)							
Power	–	2,103	1,403	–	10,537	2,226	16,269
Income treated as negative expenditure	–	(0,602)	(0,103)	–	(0,041)	–	(0,746)
Abstraction charges/discharge consents	4,599	–	0,219	–	0,088	0,012	4,918
Bulk supply	–	–	–	–	–	–	–
Other operating expenditure							
– Renewals expensed in year (Infrastructure)	–	–	–	–	–	3,536	3,536
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–
– Other operating expenditure excluding renewals	0,040	2,329	0,931	–	18,777	18,171	40,248
Local authority and Cumulo rates	–	2,169	0,634	–	2,820	16,999	22,622
Total operating expenditure excluding third party services	4,639	5,999	3,084	–	32,181	40,944	86,847
Third party services	–	–	–	–	–	1,540	1,540
Total operating expenditure	4,639	5,999	3,084	–	32,181	42,484	88,387
Capital expenditure (excl. atypicals)							
Maintaining the long-term capability of the assets – infra	–	0,440	1,469	–	–	14,044	15,953
Maintaining the long-term capability of the assets – non-infra	–	3,165	0,798	–	22,615	18,876	45,454
Other capital expenditure – infra	–	2,139	–	–	0,034	10,517	12,690
Other capital expenditure – non-infra	–	1,093	–	–	6,952	3,124	11,169
Infrastructure network reinforcement	–	–	–	–	–	0,098	0,098
Total gross capital expenditure (excluding third party)	–	6,837	2,267	–	29,601	46,659	85,364
Third party services	–	–	–	–	–	–	–
Total gross capital expenditure	–	6,837	2,267	–	29,601	46,659	85,364
Grants and contributions	–	–	–	–	–	11,081	11,081
Totex	4,639	12,836	5,351	–	61,782	78,062	162,670
Cash expenditure (excl. atypicals)							
Pension deficit recovery payments	–	0,572	0,403	–	5,529	6,529	13,033
Other cash items	–	–	–	–	–	–	–
Totex including cash items	4,639	13,408	5,754	–	67,311	84,591	175,703
Atypical expenditure	–	–	–	–	–	–	–
Total expenditure	4,639	13,408	5,754	–	67,311	84,591	175,703

TABLE 4K – Atypical and non-atypical expenditure by business unit – wholesale 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	
Operating expenditure (excl. atypicals)									
Power	5,194	1,367	0,273	10,884	1,548	–	1,306	–	20,572
Income treated as negative expenditure	–	–	–	–	–	–	(0,426)	–	(0,426)
Discharge consents	0,980	0,261	–	2,759	–	–	–	–	4,000
Bulk discharge	–	–	–	–	–	–	–	–	–
Other operating expenditure									
– Renewals expensed in year (Infrastructure)	8,712	2,293	0,459	–	–	–	–	–	11,464
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	–
– Other operating expenditure excluding renewals	8,615	2,360	0,472	23,017	0,212	3,022	5,759	3,175	46,632
Local authority and Cumulo rates	0,086	0,023	0,005	5,310	–	–	0,786	–	6,210
Total operating expenditure excluding third party services	23,587	6,304	1,209	41,970	1,760	3,022	7,425	3,175	88,452
Third party services	0,428	0,114	–	–	–	–	–	–	0,542
Total operating expenditure	24,015	6,418	1,209	41,970	1,760	3,022	7,425	3,175	88,994
Capital expenditure (excl. atypicals)									
Maintaining the long-term capability of the assets – infra	3,715	0,978	0,167	0,116	0,004	–	–	–	4,980
Maintaining the long-term capability of the assets – non-infra	5,095	1,341	0,229	22,450	0,871	–	6,185	–	36,171
Other capital expenditure – infra	7,467	1,966	0,336	0,052	0,002	–	–	–	9,823
Other capital expenditure – non-infra	2,710	0,714	0,122	14,231	0,552	–	(0,070)	–	18,259
Infrastructure network reinforcement	3,320	0,874	0,149	–	–	–	–	–	4,343
Total gross capital expenditure (excluding third party)	22,307	5,873	1,003	36,849	1,429	–	6,115	–	73,576
Third party services	–	–	–	–	–	–	–	–	–
Total gross capital expenditure	22,307	5,873	1,003	36,849	1,429	–	6,115	–	73,576
Grants and contributions	6,354	1,674	–	–	–	–	–	–	8,028
Totex	39,968	10,617	2,212	78,819	3,189	3,022	13,540	3,175	154,542
Cash expenditure (excl. atypicals)									
Pension deficit recovery payments	2,861	0,765	0,144	7,318	0,307	–	2,048	0,221	13,664
Other cash items	–	–	–	–	–	–	–	–	–
Totex including cash items									
Atypical expenditure	–	–	–	–	–	–	–	–	–
Total expenditure	42,829	11,382	2,356	86,137	3,496	3,022	15,588	3,396	168,206

ADDITIONAL REGULATORY INFORMATION CONTINUED

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	
Enhancement capital expenditure by purpose							
Making ecological improvements at abstractions (habitats directive, SSSI, BAPs)	–	0.258	–	–	–	–	0.258
Supply side enhancements to the supply/demand balance (dry year annual average conditions)	–	0.245	–	–	–	–	0.245
NEP – Invasive Non Native Species							
New developments	–	–	–	–	–	3.626	3.626
New connection element of new development (CPs, meters)	–	–	–	–	–	5.265	5.265
Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	–	–	–	–	3.989	0.192	4.181
Resilience	–	–	–	–	–	0.004	0.004
SEMD	–	–	–	–	–	0.103	0.103
Metering (excluding cost of providing metering to new service connections)	–	–	–	–	–	2.486	2.486
Management and general investment	–	0.674	–	–	1.578	1.685	3.937
New WTWs including North Plymouth, Mayflower WTW	–	–	–	–	1.419	0.378	1.797
Catchment management	–	2.055	–	–	–	–	2.055
Total enhancement capital expenditure	–	3.232	–	–	6.986	13.739	23.957

TABLE 4L – Enhancement capital expenditure by purpose – wholesale water continued

Cumulative expenditure on schemes completed in the report year

	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	
Enhancement capital expenditure by purpose							
Making ecological improvements at abstractions (habitats directive, SSSI, BAPs)	–	0.258	–	–	–	–	0.258
Supply side enhancements to the supply/demand balance (dry year annual average conditions)	–	0.245	–	–	–	–	0.245
New developments	–	–	–	–	–	3.626	3.626
New connection element of new development (CPs, meters)	–	–	–	–	–	5.265	5.265
Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	–	–	–	–	6.122	–	6.122
Resilience	–	–	–	–	–	–	–
SEMD	–	–	–	–	–	0.103	0.103
Metering (excluding cost of providing metering to new service connections)	–	–	–	–	–	2.486	2.486
Management and general investment							
New WTW North Plymouth, Mayflower WTW	–	–	–	–	–	–	–
Catchment management	–	2.055	–	–	–	–	2.055
Total enhancement capital expenditure	–	2.558	–	–	6.122	11.480	20.160

The above table reports expenditure on all projects where expenditure has been in excess of £0.5m. Where a project consists of a large number of 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 CONTINUED

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	
Enhancement capital expenditure by purpose									
First time sewerage	0.254	0.067	0.011	–	–	–	–	–	0.332
NEP – Event Duration Monitoring at intermittent discharges	0.697	0.184	0.031	–	–	–	–	–	0.912
NEP - Investigations	–	–	–	0.387	0.015	–	–	–	0.402
NEP – Nutrients (P removal at activated bed STWs)	–	–	–	4.096	0.159	–	–	–	4.255
NEP – Nutrients (P removal at filter bed STWs)	–	–	–	3.989	0.155	–	–	–	4.144
New development and growth	1.935	0.510	0.087	–	–	–	–	–	2.532
Growth at sewage treatment works (excluding sludge treatment)	–	–	–	3.584	0.139	–	–	–	3.723
Reduce flooding risk for properties	4.763	1.254	0.214	–	–	–	–	–	6.231
Transferred private sewers and pumping stations	1.679	0.442	0.075	–	–	–	–	–	2.196
Bathing waters additional requirements	0.978	0.258	0.044	–	–	–	–	–	1.280
Downstream thinking	0.601	0.158	0.027	–	–	–	–	–	0.786
Management and general	2.590	0.681	0.118	2.227	0.086	–	(0.070)	–	5.632
Total enhancement capital expenditure	13.497	3.554	0.607	14.283	0.554	–	(0.070)	–	32.425

The above table reports expenditure on all projects where expenditure has been in excess of £0.5m. Where a project consists of a large number of 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.

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	
Enhancement capital expenditure by purpose									
First time sewerage	0.254	0.067	0.011	–	–	–	–	–	0.332
NEP – Event Duration Monitoring at intermittent discharges	0.697	0.184	0.031	–	–	–	–	–	0.912
NEP - Investigations	–	–	–	0.387	0.015	–	–	–	0.402
NEP - Nutrients (P removal at activated sludge STWs)	–	–	–	4.096	0.159	–	–	–	4.255
NEP – Nutrients (P removal at filter bed STWs)	–	–	–	3.989	0.155	–	–	–	4.144
New development and growth Growth at sewage treatment works (excluding sludge treatment)	1.935	0.510	0.087	–	–	–	–	–	2.532
Reduce flooding risk for properties	4.763	1.467	0.214	–	–	–	–	–	6.444
Transferred private sewers and pumping stations	1.679	0.442	0.075	–	–	–	–	–	2.196
Bathing waters additional requirements	14.836	3.907	0.667	–	–	–	–	–	19.410
Downstream thinking	–	–	–	–	–	–	–	–	–
Management and general	–	–	–	–	–	–	–	–	–
Total enhancement capital expenditure	24.164	6.577	1.085	8.472	0.329	–	–	–	40.627

TABLE 4N – Operating expenditure – sewage treatment

	Network+ £k	Total £k
Costs of STWs in size bands 1 to 5		
Direct costs of STWs in size band 1	2,932.794	2,932.794
Direct costs of STWs in size band 2	2,566.329	2,566.329
Direct costs of STWs in size band 3	5,131.636	5,131.636
Direct costs of STWs in size band 4	6,775.193	6,775.193
Direct costs of STWs in size band 5	4,742.100	4,742.100
General & support costs of STWs in size bands 1 to 5	3,431.182	3,431.182
Functional expenditure of STWs in size bands 1 to 5	25,579.234	25,579.234
Costs of STWs in size band 6		
Service charges for STWs in size band 6	391.000	391.000
Estimated terminal pumping costs size band 6 works	1,048.000	1,048.000
Other direct costs of STWs in size band 6	11,610.000	11,610.000
Direct costs of STWs in size band 6	13,049.000	13,049.000
General & support costs of STWs in size band 6	2,021.000	2,021.000
Functional expenditure of STWs in size band 6	15,070.000	15,070.000
Total functional expenditure for sewage treatment	40,649.234	40,649.234

This table shows sewage treatment expenditure by size band. 2019/20 values reflect RAG 4.08 excluding both third party costs and local authority rates.

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 40 – Wholesale wastewater service – large sewage treatment works

	Units	Barnstaple (Ashford)	Newton Abbot (Buckland)	Torbay (Brokenbury Quarry)	Camborne	Bideford (Cornborough)
Sewage treatment works – Explanatory variables						
Classification of treatment works	text	TA2	SAS	TA2	SAS	TA2
Population equivalent of total load received	000	48.29	80.60	153.47	57.66	45.82
Suspended solids consent	mg/l	45	60	60	250	60
BOD ₅ consent	mg/l	25	25	25	25	25
Ammonia consent	mg/l	20	n/a	n/a	n/a	n/a
Phosphorus consent	mg/l	n/a	n/a	n/a	n/a	n/a
UV consent	mW/s/cm ²	27	n/a	24	n/a	16
Load received by STW	kgBOD ₅ /d	2,897	4,836	9,208	3,460	2,749
Flow passed to Full Treatment	m ³ /d	18,424	28,447	55,153	17,945	18,196
Sewage treatment works – Functional expenditure						
Service charges	£000	19	19	32	32	17
Estimated terminal pumping expenditure	£000	–	–	511	112	–
Other direct expenditure	£000	1,045	669	1,131	275	338
Total direct expenditure	£000	1,064	688	1,674	419	355
General and support expenditure	£000	165	107	259	65	55
Functional expenditure	£000	1,229	795	1,933	484	410

Exeter (Countess Wear)	Plymouth (Camels Head)	Exmouth (Maer Lane)	Plymouth (Central)	Falmouth	Hayle	Plymouth (Ernesettle)	Plympton (Marsh Mills)	Truro (Newham)	Plymouth (Radford)	Newquay	St Austell
TA2	TA2	TA2	TA2	TA2	SB	TB2	TA2	TA2	SA	TA2	TB2
165,43	52,93	48,99	116,35	41,18	63,82	63,95	64,34	28,67	26,65	36,52	27,06
25	30	60	60	15	150	60	20	30	30	60	60
15	20	25	25	20	25	25	10	20	20	25	25
10	n/a	n/a	n/a	n/a	n/a	35	5	20	10	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
30	30	43	54	42	n/a	33	n/a	33	n/a	24	n/a
9,926	3,176	2,940	6,981	2,471	3,829	3,837	3,861	1,720	1,599	2,191	1,624
49,174	17,387	14,820	40,447	12,469	31,515	24,769	21,733	12,908	6,646	12,285	11,417
34	20	19	32	19	34	20	19	19	20	17	19
-	64	-	361	-	-	-	-	-	-	-	-
1,434	521	504	1,342	542	857	602	623	458	226	517	526
1,468	605	523	1,735	561	891	622	642	477	246	534	545
227	94	81	269	87	138	96	99	74	38	83	84
1,695	699	604	2,004	648	1,029	718	741	551	284	617	629

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4P – Non-financial data for WR, WT and WD – wholesale water

	Units	Input
Water resources		
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.185
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	0.725
Proportion of distribution input derived from boreholes, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.086
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	–
Proportion of distribution input derived from saline abstractions	Propn 0 to 1	–
Proportion of distribution input derived from water reuse 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	31
Number of artificial recharge (AR) water supply schemes	nr	–
Number of aquifer storage and recovery (ASR) water supply schemes	nr	–
Number of saline abstraction schemes	nr	–
Total number of sources	nr	61
Number of reuse schemes	nr	–
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 transport stations	nr	21
Total capacity of intake and source pumping stations	kW	7,976
Total capacity of raw water transfer pumping stations	kW	15,050
Total length of raw water abstraction mains and other conveyors	km	73.35
Average pumping head – resources	m.hd	4.94
Average pumping head – raw water transport	m.hd	35.50
Total length of raw and pre-treated (non-potable) water transport mains	km	232.98
Water resources capacity (measured using water resources yield)	MI/d	751.60

	Units	Input
Water treatment		
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	220.70
Total water treated at all SW4 works	MI/d	–
Total water treated at all SW5 works	MI/d	346.93
Total water treated at all SW6 works	MI/d	–
Total water treated at all GW simple disinfection works	MI/d	16.90
Total water treated at all GW1 works	MI/d	–
Total water treated at all GW2 works	MI/d	1.83
Total water treated at all GW3 works	MI/d	–
Total water treated at all GW4 works	MI/d	23.10
Total water treated at all GW5 works	MI/d	9.17
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	13
Total number of SW4 works	nr	–
Total number of SW5 works	nr	11
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	–
Zonal population receiving water treated with orthophosphate	nr	1,413,048
Average pumping head – water treatment	m.hd	8.73

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4P – Non-financial data for WR, WT and WD – wholesale water continued

	Units	Input
Water distribution		
Total length of potable mains as at 31 March	km	18,369.6
Total length of potable mains relined	km	–
Total length of potable mains renewed	km	15.9
Total length of new potable mains	km	59.6
Total length of potable water mains (< ≤320mm)	km	17,301.4
Total length of potable water mains >320mm and ≤ 450mm	km	562.4
Total length of potable water mains >450mm and ≤610mm	km	385.8
Total length of potable water mains > 610mm	km	120.0
Capacity of booster pumping stations	kW	30,227
Capacity of service reservoirs	MI	1,134
Capacity of water towers	MI	8
Distribution input	MI/d	611.16
Water delivered (non-potable)	MI/d	–
Water delivered (potable)	MI/d	525.40
Water delivered (billed measured households)	MI/d	236.17
Water delivered (billed measured non-households)	MI/d	139.65
Total leakage	MI/d	106.32
Distribution losses	MI/d	80.45
Water taken unbilled	MI/d	28.55
Number of lead communication pipes	nr	80,632
Number of galvanised iron communication pipes	nr	122,038
Number of other communication pipes	nr	792,091
Number of booster pumping stations	nr	270
Total number of service reservoirs	nr	316
Number of water towers	nr	12
Total length of potable mains laid or structurally refurbished pre-1880	km	38.0
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	208.1
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	432.3
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	1,585.1
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	4,025.3
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	5,366.4
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	4,273.2
Total length of potable mains laid or structurally refurbished post 2001	km	2,441.2
Average pumping head – treated water distribution	m.hd	92.11
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	%	0.4
Proportion of Total DI band 4	%	14.9
Proportion of Total DI band 5	%	17.8
Proportion of Total DI band 6	%	18.6
Proportion of Total DI band 7	%	47.2
Proportion of Total DI band 8	%	–

TABLE 4Q – Non-financial data – Properties, population and other – wholesale water

	Units	Input
Properties and population		
Residential properties for measured water (external meter)	000s	717,418
Residential properties billed for measured water (not external meter)	000s	65,316
Business properties billed measured water	000s	74,734
Residential properties billed for unmeasured water	000s	182,936
Business properties billed unmeasured water	000s	2,762
Total business connected properties at year end	000s	85,016
Total residential connected properties at year end	000s	977,857
Total connected properties at year end	000s	1,062,873
Number of residential meters renewed	000s	7,465
Number of business meters renewed	000s	0,481
Number of meters installed at request of optants	000s	5,869
Number of selective meters installed	000s	0,620
Total number of new business connections	000s	0,580
Total number of new residential connections	000s	8,467
Total population served	000s	2,214,820
Number of business meters (billed properties)	000s	74,734
Number of residential meters (billed properties)	000s	782,734
Company area	km ²	114,68
Other		
Number of lead communication pipes replaced for water quality	nr	6
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) – network+	MWh	160,745
Energy consumption (i.e. including imports, self generation, excluding exports) – water resources	MWh	8,328
Energy consumption (i.e. including imports, self generation, excluding exports) – wholesale	MWh	169,073
Mean Zonal Compliance	%	99.98
Compliance Risk Index	nr	3.6
Event Risk Index	nr	240.7
Volume of Leakage above or below the Sustainable Economic Level	MI	(22,794)

ADDITIONAL REGULATORY INFORMATION CONTINUED

**TABLE 4R – Non-financial data – Wastewater network and sludge
– wholesale wastewater**

	Units	Input
Wastewater network		
Connectable properties served by s101A schemes completed in the report year	nr	23
Number of s101A schemes completed in the report year	nr	2
Total pumping station capacity	kW	4,2319
Number of network pumping stations	nr	1,236
Total number of sewer blockages	nr	6,662
Total number of gravity sewer collapses	nr	187
Total number of sewer rising main bursts/collapses	nr	53
Number of combined sewer overflows	nr	1,192
Number of emergency overflows	nr	236
Number of settled storm overflows	nr	155
Sewer age profile (constructed post 2001)	km	1,197
Volume of trade effluent	MI/yr	2,276.52
Volume of wastewater receiving treatment at sewage treatment works	MI/yr	246,537.60
Length of gravity sewers rehabilitated	km	18
Length of rising mains replaced or structurally refurbished	km	4
Length of foul (only) public sewers	km	2,124
Length of surface water (only) public sewers	km	2,509
Length of combined public sewers	km	5,755
Length of rising mains	km	615
Length of other wastewater network pipework	km	138
Total length of "legacy" public sewers as at 31 March	km	11,141
Length of formerly private sewers and lateral drains (s105A sewers)	km	6,374

	Units	Input
Sludge		
Total sewage sludge produced, treated by incumbents	ttds/year	39.5
Total sewage sludge produced, treated by third party sludge service provider	ttds/year	0.4
Total sewage sludge produced	ttds/year	39.9
Total sewage sludge produced from non-appointed liquid waste treatment	ttds/year	1.0
Percentage of sludge produced and treated at a site of STW and STC co-location	%	71.50
Total sewage sludge disposed by incumbents	ttds/year	38.9
Total sewage sludge disposed by third party sludge service provider	ttds/year	2.9
Total sewage sludge disposed	ttds/year	41.8
Total measure of intersiting 'work' done by pipeline	ttds*km/year	1
Total measure of intersiting 'work' done by tanker	ttds*km/year	355
Total measure of intersiting 'work' done by truck	ttds*km/year	130
Total measure of intersiting 'work' done (all forms of transportation)	ttds*km/year	486
Total measure of intersiting 'work' done by tanker (by volume transported) ¹	m ³ *km/yr	14,169,189
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	1,689
Total measure of 'work' done in sludge disposal operations (all forms of transportation)	ttds*km/year	1,689
Total measure of 'work' done by tanker in sludge disposal operations (by volume transported)	m ³ *km/yr	-
Chemical P sludge as % of sludge produced at STWs	%	13.83

1 In previous years this line was reported in round millions.

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4S – Non-financial data – Sewage treatment – wholesale wastewater

	Units	Treatment categories							Total
		Secondary				Tertiary			
		Primary	Activated sludge	Biological	A1	A2	B1	B2	
Load received at sewage treatment works in 2018/19									
Load received by STWs in size band 1	kg BOD ₅ /day	111	319	1,003	69	15	431	27	1,975
Load received by STWs in size band 2	kg BOD ₅ /day	19	275	797	158	95	378	162	1,884
Load received by STWs in size band 3	kg BOD ₅ /day	163	986	1,699	1,098	1,355	1,046	928	7,275
Load received by STWs in size band 4	kg BOD ₅ /day	–	2,631	1,478	998	5,291	1,468	3,588	15,454
Load received by STWs in size band 5	kg BOD ₅ /day	–	858	–	–	7,592	813	5,518	14,781
Load received by STWs above size band 5	kg BOD ₅ /day	–	9,996	3,995	–	48,455	–	5,619	68,065
Total load received	kg BOD₅/day	293	15,065	8,972	2,323	62,803	4,136	15,842	109,434
Load received from trade effluent customers at treatment works	kg BOD ₅ /day								3,113
Number of sewage treatment works at 31 March 2019									
STWs in size band 1	nr	84	43	190	8	1	53	3	382
STWs in size band 2	nr	1	12	33	7	3	16	7	79
STWs in size band 3	nr	2	14	30	15	11	17	13	102
STWs in size band 4	nr	–	9	7	4	16	7	10	53
STWs in size band 5	nr	–	1	–	–	9	1	6	17
STWs above size band 5	nr	–	3	1	–	11	–	2	17
Total number of works	nr	87	82	261	34	51	94	41	650

1 South West Water has four Fine Screening Plants (Preliminary Treatment Works) which have this year been included within the primary treatment column.

	Units	2019/20
Population equivalent		
Current population equivalent served by STWs	000s	1,684.650
Current population equivalent served by discharge relocation schemes	000s	–
Current population equivalent served by filter bed STWs with tightened/new P consents	000s	12.908
Current population equivalent served by activated sludge STWs with tightened/new P consents	000s	61.393
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	–
Current population equivalent served by STWs with tightened/new UV consents	000s	–
Population equivalent treatment capacity enhancement	000s	10.676

Treatment works consents

Phosphorus					BOD ₅					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
-	-	-	1,975	1,975	-	6	139	310	1,519	1,974	-	-	166	141	1,667	1,974
-	-	24	1,860	1,884	17	79	573	1,055	161	1,885	-	45	790	380	669	1,884
-	220	257	6,798	7,275	301	552	2,788	3,471	163	7,275	102	470	2,069	1,269	3,365	7,275
-	1,893	148	13,413	15,454	-	715	4,827	9,911	-	15,453	-	435	4,722	3,270	7,026	15,453
-	4,029	4,185	6,567	14,781	-	1,495	8,914	4,372	-	14,781	-	1,386	8,272	1,385	3,739	14,782
-	-	-	68,065	68,065	-	3,860	19,056	4,5149	-	68,065	-	-	15,550	8,784	43,731	68,065
-	6,142	4,614	98,678	109,434	318	6,707	36,297	64,268	1,843	109,433	102	2,336	31,569	15,229	60,197	109,433
-	-	-	382	382	-	1	13	27	341	382	-	-	14	15	353	382
-	-	1	78	79	1	3	24	44	7	79	-	2	33	16	28	79
-	3	3	96	102	4	6	41	49	2	102	1	6	34	15	46	102
-	5	1	47	53	-	2	16	35	-	53	-	3	15	13	22	53
-	5	4	8	17	-	2	10	5	-	17	-	1	11	1	4	17
-	-	-	17	17	-	1	5	11	-	17	-	-	3	3	11	17
-	13	9	628	650	5	15	109	171	350	650	1	12	110	63	464	650

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4T – Non-financial data – Sludge treatment – wholesale wastewater

	Units	By incumbent	By third party sludge service providers
Sludge treatment process			
% Sludge – untreated	%	0.2	–
% Sludge treatment process – raw sludge liming	%	70.9	0.9
% Sludge treatment process – conventional AD	%	23.7	–
% Sludge treatment process – advanced AD	%	–	–
% Sludge treatment process – incineration of raw sludge	%	–	1.0
% Sludge treatment process – incineration of digested sludge	%	–	–
% Sludge treatment process – phyto-conditioning/composting	%	3.4	–
% Sludge treatment process – other (specify)	%	–	–
% Sludge treatment process – Total	%	98.1	1.9
(Un-incinerated) sludge disposal route			
% Sludge disposal route – landfill, raw	%	–	–
% Sludge disposal route – landfill, partly treated	%	–	–
% Sludge disposal route – land restoration/reclamation	%	–	0.1
% Sludge disposal route – sludge recycled to farmland	%	94.1	5.8
% Sludge disposal route – other (specify)	%	–	–
% Sludge disposal route – Total	%	94.1	5.9

TABLE 4U – Non-financial data – Properties, population and other – wholesale wastewater

	Units	Input
Properties and population		
Households properties connected during the year	000s	7.083
Non-households properties connected during the year	000s	0.085
Households properties billed unmeasured sewage	000s	101.896
Households properties billed measured sewage	000s	609.844
Households properties billed for sewage	000s	711.740
Non-households properties billed unmeasured sewage	000s	1.676
Non-household properties billed measured sewage	000s	40.952
Non-households properties billed for sewage	000s	42.628
Void properties	000s	10.938
Number of properties	000s	765.306
Resident population	000s	1,618.123
Non-resident population	000s	139.393
Other		
Energy consumption – network plus	MWh	163,052.055
Energy consumption – sludge	MWh	15,251.050
Energy consumption – wholesale	MWh	178,303.105
Population resident in National Parks, SSSIs and Areas of Outstanding Natural Beauty (AONBs)	000	149.158
Total sewerage catchment area	km ²	850
Designated bathing waters	nr	151
Number of intermittent discharge sites with event duration monitoring	nr	106
Number of monitors for flow monitoring at STWs	nr	1
Number of odour-related complaints	nr	947
Volume of storage provided at CSOs, storm tanks, etc. to meet spill frequency requirements	m ³	–
Total volume of network storage	m ³	953,966

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4V – Operating cost analysis – water resources

	Impounding reservoir £m	Pumped storage £m	River abstractions £m	Groundwater, excluding MAR water supply £m	Artificial Recharge (AR) water supply schemes £m	Aquifer Storage and Recovery (ASR) water supply schemes £m	Other £m	Total £m
Power	0.387	0.017	1.512	0.187	–	–	–	2.103
Income treated as negative expenditure	(0.111)	(0.005)	(0.432)	(0.054)	–	–	–	(0.602)
Abstraction charges/ discharge consents	0.846	0.037	3.307	0.409	–	–	–	4.599
Bulk supply	–	–	–	–	–	–	–	–
Other operating expenditure								
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	0.214	0.009	0.834	0.103	–	–	–	1.160
Other operating expenditure excluding renewals – indirect	0.222	0.010	0.870	0.107	–	–	–	1.209
Total functional expenditure	1.558	0.068	6.091	0.752	–	–	–	8.469
Local authority and Cumulo rates	0.399	0.017	1.560	0.193	–	–	–	2.169
Total operating expenditure (excluding third party)	1.957	0.085	7.651	0.945	–	–	–	10.638
Depreciation	0.724	0.031	2.828	0.350	–	–	–	3.933
Total operating costs (excluding third party)	2.681	0.116	10.479	1.295	–	–	–	14.571

This table provides a detailed breakdown of water resources related operating expenditure shown within table 4D. Costs are allocated to activity types using proportion of distribution in volumes.

Other expenditure – wholesale water

Item	Water resources £m	Raw water distribution £m	Water treatment £m	Treated water distribution £m	Total £m
Employment costs – directly allocated	0.569	0.309	6.873	7.315	15.066
Employment costs – indirectly allocated	0.713	0.317	2.806	3.368	7.204
Number FTEs consistent with 4V.14 above (Nr)	24	10	199	236	469
Number FTEs consistent with 4V.15 above (Nr)	14	10	50	64	138
Costs associated with Traffic Management Act	–	–	–	–	–
Service charges					
Canal & River Trust abstraction charges/discharge consents	–	–	–	–	–
Environment Agency abstraction charges/discharge consents	4.599	0.219	0.088	0.012	4.918
Other abstraction charges/discharge consents	–	–	–	–	–
Statutory water softening	–	–	–	–	–

ADDITIONAL REGULATORY INFORMATION CONTINUED

TABLE 4W – Operating cost analysis – sludge transport, treatment and disposal

Sludge transport method	Pipeline	Tanker	Truck	Total
Power	–	–	–	–
Income treated as negative expenditure	–	–	–	–
Discharge consents	–	–	–	–
Bulk supply	–	–	–	–
Other operating expenditure				
Renewals expensed in year (Infrastructure)	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–
Other operating expenditure excluding renewals – direct	–	2,445	–	2,445
Other operating expenditure excluding renewals – indirect	–	0,577	–	0,577
Total functional expenditure	–	3,022	–	3,022
Local authority and Cumulo rates	–	–	–	–
Total operating expenditure (excluding 3rd party)	–	3,022	–	3,022
Depreciation	–	–	–	–
Total operating costs (excluding 3rd party)	–	3,022	–	3,022

Sludge treatment type	Untreated sludge	Raw sludge liming	Conventional AD	Incineration of raw sludge	Incineration of digested sludge	Photo-conditioning/composting	Advanced Anaerobic Digestion	Other	Total
Power	–	0.936	0.332	–	–	0.037	–	0.001	1,306
Income treated as negative expenditure	–	(0.306)	(0.108)	–	–	(0.012)	–	–	(0,426)
Discharge consents	–	–	–	–	–	–	–	–	–
Bulk supply	–	–	–	–	–	–	–	–	–
Other operating expenditure									
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	–	2,893	1,025	–	–	0,113	–	0,004	4,035
Other operating expenditure excluding renewals – indirect (excluding third party)	–	1,237	0,438	–	–	0,048	–	0,002	1,725
Total functional expenditure	–	4,760	1,687	–	–	0,186	–	0,007	6,640
Local authority and Cumulo rates	–	0,563	0,199	–	–	0,022	–	0,001	0,785
Total operating expenditure (excluding 3rd party)	–	5,323	1,886	–	–	0,208	–	0,008	7,425
Depreciation	–	3,587	1,201	–	–	0,169	–	0,106	5,063
Total operating costs (excluding 3rd party)	–	8,910	3,087	–	–	0,377	–	0,114	12,488

Sludge disposal route	Landfill, raw	Landfill, partly treated	Land restoration/reclamation	Sludge recycled to farmland	Other	Total
Power	–	–	–	–	–	–
Income treated as negative expenditure	–	–	–	–	–	–
Discharge consents	–	–	–	–	–	–
Bulk discharge	–	–	–	–	–	–
Other operating expenditure						
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	–	–	0.025	2.493	0.003	2.521
Other operating expenditure excluding renewals – indirect	–	–	0.007	0.647	0.001	0.655
Total functional expenditure	–	–	0.032	3.140	0.003	3.175
Local authority and Cumulo rates	–	–	–	–	–	–
Total operating expenditure (excluding 3 rd party)	–	–	0.032	3.140	0.003	3.175
Depreciation	–	–	–	0.179	–	0.179
Total operating costs (excluding 3rd party)	–	–	0.032	3.319	0.003	3.354

This table provides a detailed breakdown of sludge related operating expenditure shown within table 4E. Costs are allocated to activity types using physical volumes.

Other expenditure – wholesale wastewater

Item	Network Plus sewage collection	Network Plus sewage treatment	Sludge	Total
Employment costs – directly allocated	5.978	11.933	1.010	18.921
Employment costs – indirectly allocated	1.208	2.269	0.776	4.253
Number FTEs consistent with line 4W.40 above	124	342	93	559
Number FTEs consistent with 4W.41 above	35	71	22	128
Costs associated with Traffic Management Act	–	–	–	–
Costs associated with Industrial Emissions Directive	–	–	–	–
Service charges				
Canal & River Trust service charges discharge consents	–	–	–	–
Environment Agency service charges and discharge consents	1.241	2.759	–	4.000
Other service charges/permits	–	–	–	–

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 3.11 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, in which 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 100 company. A summary Group structure showing principal trading subsidiaries is shown on page 61. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 17 page 151).

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 the prior year, additional services were consolidated as Shared Services functions to enhance the quality and efficiency of the service.

Transfer of assets to or from the appointee

There were no transfers of assets or liabilities by or to the Company in 2019/20.

The non-household retail market

South West Water exited the provision of retail services to non-household customers on 1 April 2017 when the non-household retail market opened but 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 pay retailers for their supply and they in turn pay wholesalers based upon the retail charging schedules. Pennon Water Services, a fellow Group company, is a non-household water and wastewater retailer and therefore South West Water is paid by Pennon Water Services for some of its non-household wholesale services. South West Water 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)
Group/Management recharges	Information Services recharges	10,505	Recharge based upon employee numbers	392
	Property	10,505	Recharge of property cost based on floor space	348
	Insurance	10,505	Recharge based upon employee numbers	240
	Other	10,505	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	10,505	Recharge of cost incurred	10,505

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	0.246	Recharge of cost incurred	4

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)
Administrative expenses	Administration services	0.246	Market testing – benchmarking	246

COST ALLOCATION AND TRANSFER PRICING CONTINUED

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	757.812	Market testing – charged at published rates in the South West Water Non-Household Wholesale Charges Scheme	58
Other	Property and Information services	757.812	Recharge of property costs based on floor space and recharge of Information Services costs incurred	617

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	757.812	Market testing	522

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	17.600	Recharge based upon employee numbers	120
Property	Floor space	17.600	Recharge of property costs based on floor space	307
Other – Communications, HR, Payroll, Facilities	Other internal services provided	17.600	Recharge of salary cost incurred	131

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	17.600	Recharge of cost incurred	2,142
	Investor Relations	17.600	Recharge of cost incurred	1,058
	Legal & Company Secretary	17.600	Recharge of cost incurred	1,365
	Group expenses	17.600	Recharge of cost incurred	1,748
Group Finance	Tax, pension and accounting and internal audit services	17.600	Recharge of employee costs	1,294

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	173.506	Market testing	376
Wholesale charges	Supply of water to wholesale business	173.506	Market testing – charged at published rates in Non-Household Wholesale Charges Scheme and charged via the Market Operator	106.432
Information Services	Information Services recharges	173.506	Recharge based upon employee numbers	31
Property	Floor space	173.506	Recharge of property costs based upon floor space	164
Other recharges	Other recharges including contractor, power and vehicle costs	173.506	Recharge based on actual costs	147

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	173.506	Charges in line with published GSS levels	59

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	1.928	Recharge of insurance premium	540

COST ALLOCATION AND TRANSFER PRICING CONTINUED

Transactions with associated companies and the non-appointed business continued

Peninsula Leasing



SERVICES RECEIVED BY SOUTH WEST WATER AND CHARGED BY PENINSULA LEASING

SERVICE PROVIDED	SERVICE DETAIL	TURNOVER OF ASSOCIATED COMPANY (£M)	TERMS OF SUPPLY	VALUE OF SERVICE PROVIDED (£K)
Vehicle leasing	Vehicle leasing	0.073	Recharge of lease costs (including capital repayment)	540

Borrowings with associated companies

ASSOCIATED COMPANY AND TYPE OF BORROWING	PRINCIPLE AMOUNT (£K)	REPAYMENT DATE	INTEREST RATE (%)
South West Water Finance plc index linked bonds 2040	134,539	2040	6.83 (fixed until July 2040)
South West Water Finance plc index linked bonds 2057	292,468	2057	RPI + 1.99
South West Water Finance plc fixed rate loan	71,500	2039	2.35 fixed

APPENDIX A

Assessment of License Condition P 26

OVERVIEW

Condition P requires companies to hold an issuer credit rating which is an investment grade.

However, SWW is not required to comply with this (as it is not required to hold a credit rating) but must confirm that in the opinion of the Board, SWW would be able to maintain an issuer Credit Rating that is investment grade.

Below outline the leverage and coverage calculation used in making the assessment described on page 111.

LEVERAGE AND COVERAGE

This reflects four key financial metric and the weighting applied for each. The metrics for SWW compared to the investment grade levels are show in the table below for 2019/20.

FINANCIAL METRIC	INVESTMENT GRADE (BAA)	SWW 2019/20	ASSESSMENT AGAINST INVESTMENT GRADE
Adjusted interest coverage ratio	1.5x – 2.5x	1.8x	Exceeds
ExNet debt / RCV	55-70%	64.6%	Exceeds
FFO / Net debt	10-15%	11.3%	Exceeds
RCF / Net debt	6-10%	6.1%	Exceeds

FINANCIAL METRIC CALCULATIONS

Information for the metric calculations based on latest financial information for 2019/20

	2019/20 £m
Adjusted interest cover	
FFO	260.5
Interest paid	59.7
Capital charges	(212.8)
Total	107.5
Net interest paid	59.7
Adjusted interest cover ratio	1.8x

	March 2020 £m
Net debt / RCV	
Net debt	2,309.2
RCV	3,572.5
Net debt / RCV ratio	64.6%

	2019/20 £m
FFO / Net debt	
FFO	260.5
Net debt	2,309.2
FFO / Net debt	11.3%

	2019/20 £m
RCF / Net debt	
FFO	260.5
Less dividends*	(119.7)
RCF	140.8
Net debt	2,309.2
RCF / Net debt ratio	6.1%

* Excluding special dividend of £130m paid in August 2019.

NOTES



**South West
Water**

SOUTH WEST WATER LIMITED

**Peninsula House,
Rydon Lane, Exeter,
Devon, EX2 7HR**

**Registered in England
No 02366665**

