

**2019**

Annual Performance Report  
and Regulatory Reporting

Updated November 2019



**South West  
Water**





**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 2018/19 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, wellbeing and safety is paramount.

**SUPPLIERS AND CONTRACTORS**

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











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### Note:

We have updated our Annual Performance Report to reflect our November 2019 submission to Ofwat correcting a small number of minor table changes.



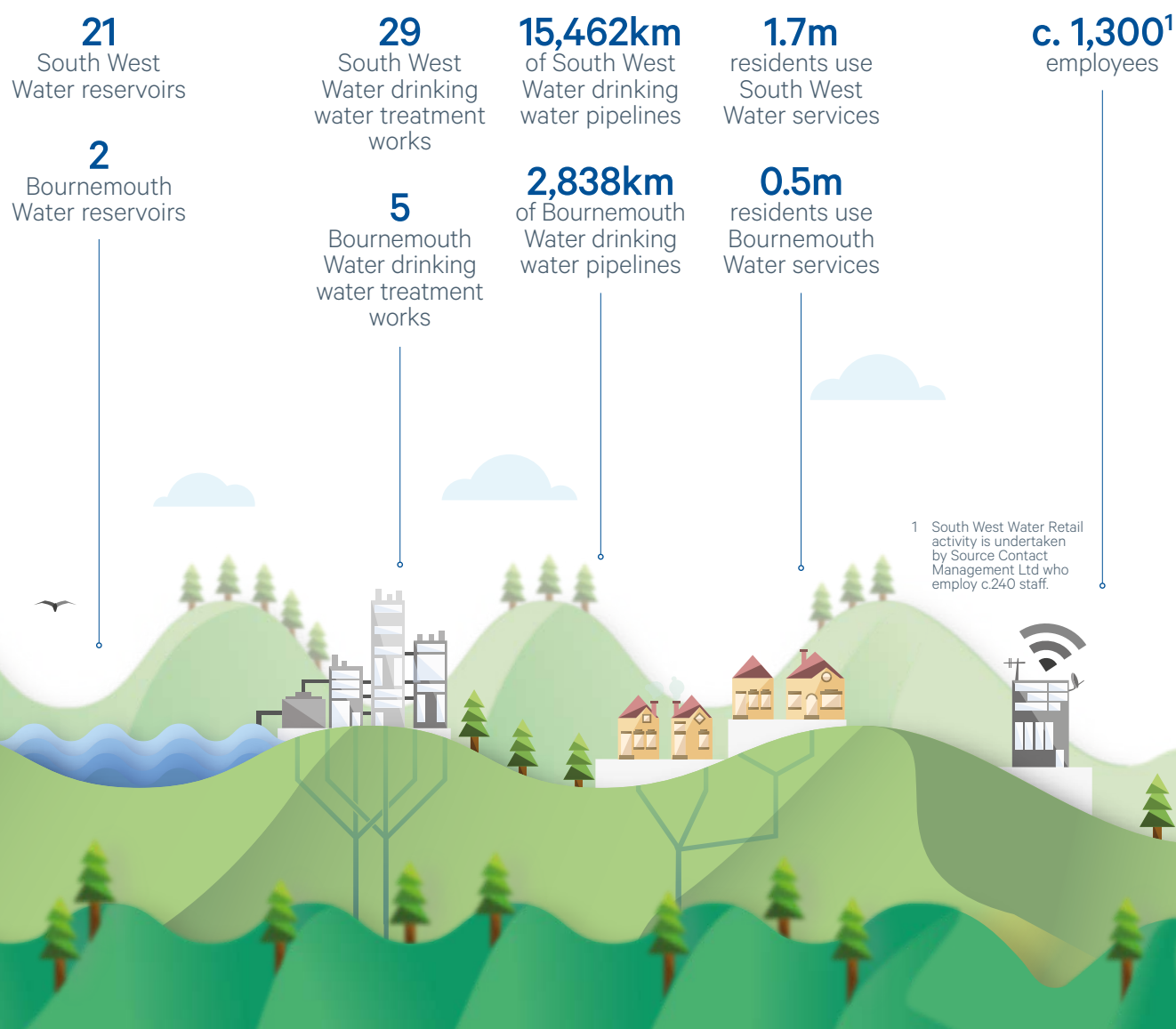
## Welcome to South West Water

# Our vision is **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.







**South West  
Water**

### SOUTH WEST WATER

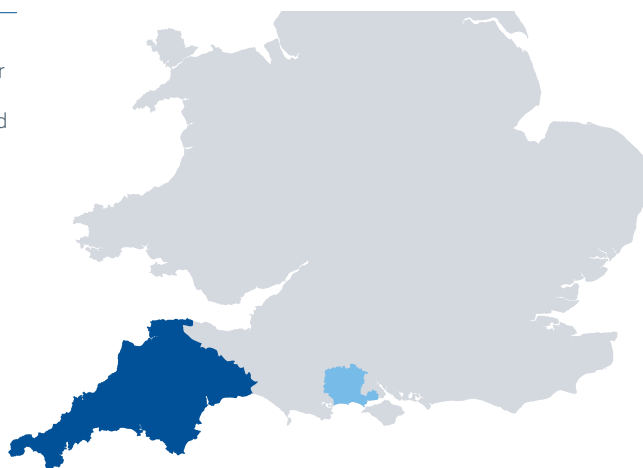
We provide water and wastewater services to South West Water customers in Cornwall, Devon and parts of Dorset and Somerset.



**Bournemouth  
Water**

### BOURNEMOUTH WATER

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



Overview

Operational performance

Regulatory reporting

**17,490km**  
of South  
West Water  
wastewater  
network

**650**  
South  
West Water  
wastewater  
treatment works

**151**  
bathing waters



## Introduction

# WELCOME TO OUR 2018/19 ANNUAL REPORT

South West Water ended 2018/19 in a strong and confident position, having delivered a robust set of results and made significant progress in both the water and wastewater areas of the business, despite the impact of the extreme weather.



As we enter the final year of the current regulatory period, progress has been made across all business areas and we remain on track to meet all of our targets by 2020.



### Dr Stephen Bird

In May 2019, we were shocked and saddened by the death of our Managing Director, Dr Stephen Bird. Stephen joined us in 1992 as a Regulations Manager and subsequently moved up through Operations to become Operations Director in 2000 and was appointed to the South West Water Board. In 2016, Stephen was appointed Managing Director. Stephen made an immense contribution to South West Water, the region and the water industry in his twenty-seven year career with us. A proud Plymothian, Stephen's commitment to the communities we serve was an inspiration. Stephen is greatly missed by all his colleagues at South West Water and Pennon.

South West Water's Business Plan for 2020-25 was awarded 'Fast-Track' status, the only company to achieve this in two consecutive price reviews and was highlighted by Ofwat as "raising the bar within the sector". We are well-placed to forge ahead with our radical and ambitious 'New Deal', designed to empower customers, lower bills and deliver major service and environmental improvements in the next investment period.

In 2018/19 we again outperformed in all areas (totex, ODIs and financing). Overall outperformance against our Outcome Delivery Incentives (ODIs) resulted in a net reward of £4.1m for the year (£11.3m cumulatively over the last four years of 2015-20 price control). This reflects an annual equivalent RoRE outperformance of 0.3% to date. South West Water continues to share the benefits of outperformance between customers and shareholders through its unique WaterShare mechanism established in 2015. £110m of customer benefits have been identified for sharing since 2015.

### HIGH QUALITY ON TAP

A reliable supply of clean, safe water remains our customers' number one priority. Drinking water quality remains excellent in both service areas with South West Water and Bournemouth Water achieving 99.99% and 100% respectively – our best combined results to date. Meanwhile, by continuing to improve both our use of network data and our operational response to any issues, we successfully kept leakage within target levels. We also reduced the overall duration of any interruptions to customer supplies in some very challenging circumstances, achieving our lowest ever level.

Significant capital investment during the year included the addition of Granular Activated Carbon (GAC) and Ultraviolet (UV) disinfection processes at three water treatment works in the South West Water region. The cutting-edge Mayflower Water Treatment Works – which will use first-in-the-UK 'ceramic membrane' technologies to serve Plymouth and the surrounding area – is also now in commissioning.

### FROM ONE EXTREME TO ANOTHER

Improving the resilience of our services remains a key focus area. In the aftermath of the March 2018 cold spell, labelled 'Beast from the East' (which saw large swathes of our region affected by snow and ice), we undertook a detailed review of our systems and processes. South West Water garnered praise within the regional media and

from our regulators for the way we handled the event but there were a number of lessons learned. As a result, steps have been taken to ensure we are even better protected from such extreme weather events in the future (see page 22 for more information).

In stark contrast to the cold weather in March, the record-breaking hot and dry weather of summer 2018 presented a different set of challenges, putting pressure on water resources as demand peaked during June and July. There was also a significant increase in leaks and bursts due to related ground movement. Prior investment in reservoir recharge and storage, as well as the careful management of supplies, ensured no water restrictions were placed on customers for a 22<sup>nd</sup> consecutive year. At the same time we stepped up our ongoing efforts to promote water efficiency. Additional leak detection activity was deployed and we remain focused on using innovative new approaches to bring leakage rates down (see page 15).

During autumn and winter we focused on replenishing our reservoirs to ensure we maintain resilient water resources for future years.

### AWARD-WINNING CUSTOMER SERVICE

Ongoing investment in our call centre staff and processes was reflected in our best-ever customer service score (as measured by SIM – Service Incentive Mechanism). South West Water was ranked second out of all water and wastewater companies in England and Wales. In addition to focusing on how best to harness customer and operational data, we have been working closely with our customers to explore how their experience can be improved. We have reduced call waiting times, adopted a more proactive approach to any potential issues and worked hard to increase the speed of operational responses. Our continued efforts in this area were recognised at the prestigious 2019 Institute of Customer Service Awards, with South West Water winning the 'Best Return on Customer Service Investment Award'.

We also continued to expand our affordability initiatives and priority services register, recognising that there are customers in challenging personal circumstances who struggle to pay their bills. In addition to continuing our work alongside Citizens Advice and other partner agencies, we have implemented a new WaterCare app for our advisors to use during home visits. This has greatly improved the efficiency and take-up of available schemes (see page 42).



## Investing in bathing water quality

We commissioned our £20m investment in Plymouth to improve the already high level of bathing water quality. Our largest single wastewater investment in the 2015-20 regulatory period will help protect the bathing waters in the Plymouth Sound through the installation of our largest ever ultraviolet disinfection facility for treating stormwater. Plymouth is currently seeking designation as the UK's first National Marine Park.



## ENVIRONMENTAL LEADERSHIP

Over the last four years we have intensified efforts to improve our performance in wastewater, recognising the importance of protecting the environment and ensuring the risk of pollution and flooding is minimised.

We are therefore extremely pleased to report that we achieved our best-ever compliance in wastewater treatment with 99% of our works meeting their permit conditions. Our pollution reduction strategy saw the number of serious pollution incidents reduced to two; this was amongst the lowest number of such incidents in the industry.

Disappointingly, the number of less serious incidents (Category 3 & 4) increased slightly from last year incurring a £0.7m penalty this year. This is a significant area of focus and recent investments to drive reductions in incidents have been completed, including delivery of a fleet of jettors and vacuums to provide resilient support on the network.

To help address the issue of blocked sewers, we continued our targeted 'Love Your Loo' campaign to increase awareness of the problems caused by flushing inappropriate items. An incident that also focused extensive attention on the issue of keeping sewers clear was the discovery of Devon's largest ever 'fatberg' in a Sidmouth sewer. Our staff worked for several weeks to remove this obstruction which was estimated to be 64 metres long.

Bathing water quality in the region remains high with 99% meeting EU standards. All of Cornwall's beaches passed the checks and the failure of two bathing waters in Devon was unrelated to any South West Water asset.

We continue to work with communities and partner organisations to address the many factors which determine bathing water quality – these include urban, industrial and agricultural run-off, animal waste and customer sewer misconnections.

South West Water also invested £18m to improve water quality in the region's rivers in order to support shellfish life in our designated shellfish waters. The project involved improvements at 22 locations across eight estuary catchments: the Dart, Exe, Teign, Camel, Fal, Yealm, Avon and Salcombe.

Other environmental successes during the year included the ongoing expansion of our pioneering catchment management programmes (Upstream and Downstream Thinking) and significant progress with our carbon reduction strategy. This has included an increase in the proportion of renewable energy being used within both our water and wastewater operations.

## GREEN LIGHT FOR 2020-25 BUSINESS PLAN

Following our largest and most extensive programme of customer engagement, South West Water published its 'New Deal' business plan for 2020-25 in September 2018 as part of the 2019 price review. 88% of South West Water and 92% of Bournemouth Water customers support our plan and vision.

In its initial assessment of water company plans in January 2019, Ofwat awarded us 'fast-track' status for the second consecutive time (making South West Water the only water company to have achieved this). The 'New Deal' includes a proposal for the launch of a unique customer share ownership scheme, a pledge to address water poverty by 2025, new water treatment

works for the Bournemouth Water area and a comprehensive environmental programme (visit [www.southwestwater.co.uk/waterfuture/business-plan-2020-2025](http://www.southwestwater.co.uk/waterfuture/business-plan-2020-2025)).

Key partnerships are already in place, including our strategic consultants and capital delivery partners, wildlife and river trusts, customer groups and charities. Our Resilient Service Improvement (RSI) transformation project is already underway, pilot trials for new water treatment technology have been completed and preparations for the expansion of our licence into the Isles of Scilly are well advanced.

## OUTLOOK

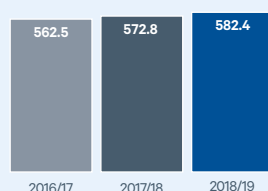
As we enter the final year of the current regulatory period we are proud of the major progress we have made across all business areas since 2015 and we remain on track to meet all our targets by 2020.

We continue to operate in line with our values of being trusted, responsible, collaborative and progressive, recognising the vital role we play in the lives of those we serve and the environments within which we operate. As we continue to focus on finding ever-more efficient, innovative and sustainable ways of working, we remain committed to meeting our customers' evolving needs while ensuring the health, safety and wellbeing of our people.

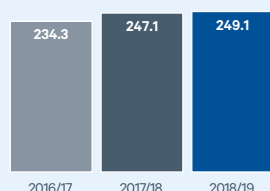
The South West Water Board would like to thank all our employees for their efforts and dedication, particularly during the challenging extreme weather events we have faced over the past year and look forward to our continued success during 2019/20.

## Financial highlights\*

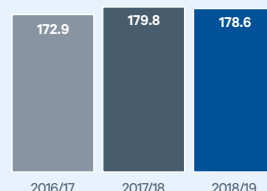
### REVENUE



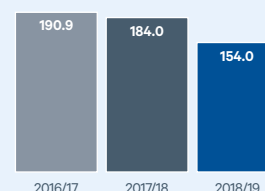
### OPERATING PROFIT



### PROFIT BEFORE TAX



### CAPITAL EXPENDITURE



\* Reflects total statutory performance.

## Creating sustainable value

# OUR BUSINESS MODEL

### Our strategic focus areas

Read more about our strategy on page 6 of South West Water's Annual Report.

#### 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.



Our business outcomes 2015-20

Our strategic focus areas

Our vision



### 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.



## 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 wellbeing, 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 means 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.

## Performance summary

# DELIVERING AGAINST TARGETS



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



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



- ✓ Number of restrictions placed on customers
- ✓ Leakage



- ✓ 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



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



- ✓ Non-compliant bathing waters



- Domestic customers paying a metered bill





## Key

### Result

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

Overview

Operational performance

Regulatory reporting



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



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

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

Of the annual targets, South West Water delivered 15 out of 23 targets and Bournemouth Water delivered 5 out of 5 targets for 2018/19. We are on track to deliver all our commitments by 2020.

Of the targets not met, four were within financial deadbands/tolerances, such that financial penalties were not incurred. Across both areas, a total of 24 of 28 annual targets were met or within this financial deadband.

Our performance detailed in this document (pages 8 to 43) summarises performances against all of our targets (including those which have only 2020 targets). The section includes commentary on additional South West Water Key Performance Indicators (KPIs).

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



- Average length of supply interruptions
- Serviceability



- Supporting a natural water environment



A woman with short grey hair, wearing a dark blue cowl-neck top, is smiling and looking off-camera to the right. She is in a kitchen, with her hands near a sink. In the background, there are orange pots and pans hanging on a rack, a vase with red flowers, and various kitchen tools on a magnetic strip.

Our water

**CLEAN  
SAFE  
RELIABLE**



## Our water

### 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.

We are committed to ensuring that there are no water restrictions over the 2020-25 period and we have stretching targets in place with respect to leakage and per capita consumption.

### Risks

The following principal risks are considered to be relevant to this area. For Strategic Impact and risk rating see page 108.

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

### Accountability



### Key

£+/-	Financial (penalty or reward)	Met
£-	Financial (penalty only)	On target
Rep	Reputational	Not met (No financial penalty)
KPI	Key Performance Indicator	Not met

## Our water



# CLEAN, SAFE AND RELIABLE DRINKING WATER

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

### Drinking water quality

A safe and clean supply of drinking water continues to be our customers' number one priority and we pride ourselves on being amongst the top performing water companies in this respect.

In 2018, South West Water achieved 99.99% compliance with official drinking water quality standards (exceeding our performance target of 99.98%) while Bournemouth Water again achieved its committed performance level of 100% compliance.

We continually seek to maintain and improve the quality of the drinking water we provide.

Our notable investments during the year included Granular Activated Carbon (GAC) and Ultraviolet (UV) disinfection processes at three water treatment works in the South West Water region.

Commissioning of the cutting-edge Mayflower Water Treatment Works is now underway and we will begin supplying Plymouth and the surrounding areas during the coming months.

The success of Mayflower will also act as a blueprint for the development of two new water treatment works in the Bournemouth Water area, as outlined in our Business Plan for the 2020-25 period.

South West Water also continues to target improved drinking water quality and availability through our award-winning 'Upstream Thinking' programme of catchment management (see page 33).

You can view our recently published long-term drinking water strategy at [www.southwestwater.co.uk/water-resources-plan-2018](http://www.southwestwater.co.uk/water-resources-plan-2018).

### Interruptions to supply

In 2018/19 we achieved our best ever performance for the South West Water region beating our target with an average duration of interruptions per property of 0.161 hours.

This was despite a 40% increase in the number of mains bursts during the summer due to ground movement arising from the prolonged dry period.

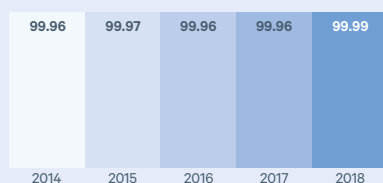
We are focused on delivering further improvements in this area, particularly given the challenging targets we have set ourselves for the 2020-25 period.

These include:

- The establishment of an enhanced monitoring centre
- Expanding our fleet of alternative water supply vehicles and operatives
- Increasing our use of business intelligence software using network data to provide further insight.



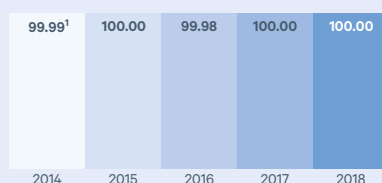
COMPLIANCE WITH WATER QUALITY STANDARDS (%)



£- 2018 target (99.98 or greater)  
 2020 target (99.98 or greater)



COMPLIANCE WITH WATER QUALITY STANDARDS (%)

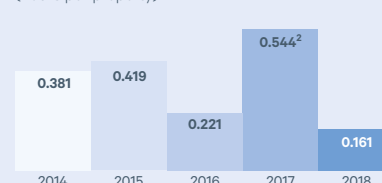


£- 2018 target (100.00 or greater)  
 2020 target (100.00 or greater)

1 Restated to align with Regulatory submission.



INTERRUPTIONS TO SUPPLY (hours per property)



£+/- 2018 target (0.214)  
 2020 target (0.200)

2 Restated to include three day freeze/thaw (0.369) excluded in incidence.





## Taste and appearance

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

In 2018 our performance in both regions was very good, despite challenges relating to the freeze/thaw in March 2018 and the hot, dry summer.

In the South West Water region, the number of customer contacts per 1,000 relating to the taste, appearance and odour of drinking water continued to fall with a c.40% reduction since 2014 and beating our 2020 target.

In the Bournemouth Water area, the number of contacts per 1,000 population also continued to improve, falling to just 0.71 contacts per 1,000 population in 2018 and beating our 2020 target.

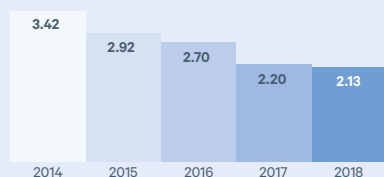
Progress is being achieved through a combination of upgrades to water treatment works, including the increasing utilisation of GAC and UV treatment processes, and the targeted flushing of drinking water mains.



Both South West Water and Bournemouth Water have delivered 2020 targets ahead of schedule.



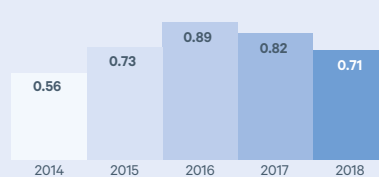
**TASTE, SMELL & COLOUR CONTACTS**  
(Nr/1,000 population)



£+/- 2018 target (3.30)  
 2020 target (3.00)



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



£+/- 2018 target (1.23)  
 2020 target (1.23)

## Our water continued

### Clean, safe and reliable drinking water continued

#### Number of mains bursts

Reducing the number, as well as the duration of interruptions is a hugely important aspect of improving the service we provide.

As such, we have set ourselves a challenging internal target of reducing the number of mains bursts to 1,350 or fewer per year by 2020.

In 2018/19 there were 1,549 bursts which is above our internal target but less than the previous two years. A contributory factor was the significant increase in mains bursts during the prolonged dry and hot summer.

We remain focused on reducing the number further through a combination of root cause analysis, pressure management and targeted mains replacement.

#### Asset reliability

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

The assessment is undertaken by reviewing our performance against 11 sub-measures across infrastructure (pipes) and non-infrastructure (processes). The sub-measures are shown in table 3B (see page 152).

In 2018/19, our assessment for asset reliability is “stable”.

Ten of the 11 South West Water sub-measures were recorded as “stable” with one sub-measure recorded as “improving” – this relates to our performance improvement in customer contacts regarding discolouration.

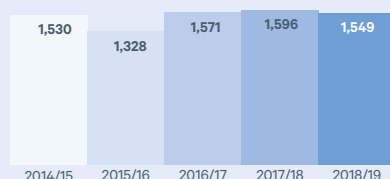
Consistent with the position in the South West Water area, Bournemouth Water’s asset reliability also continued to be deemed “stable” for both infrastructure and non-infrastructure assets. This is the sixth consecutive year that all sub-measures in the assessment have remained within the control limits.



In 2018/19 the asset reliability remains “stable” in both supply areas.



#### NUMBER OF MAINS BURSTS

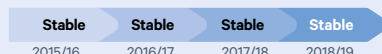


KPI 2019/20 target (1,350)



#### ASSET RELIABILITY

##### Processes



£- 2018/19 target (Stable)  
 2019/20 target (Stable)

##### Pipes

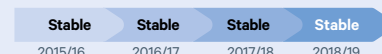


£- 2018/19 target (Stable)  
 2019/20 target (Stable)



#### ASSET RELIABILITY

##### Processes



£- 2018/19 target (Stable)  
 2019/20 target (Stable)

##### Pipes



£- 2018/19 target (Stable)  
 2019/20 target (Stable)

# GRANULAR ACTIVATED CARBON

## Improving further the quality of water supplies

During the 2015-20 investment period South West Water is investing around £20m in new GAC processes at treatment sites across the region. We have completed schemes at Tamar and Northcombe Water Treatment Works (WTW) serving areas of North Cornwall and North Devon and during 2018/19 at Tottiford WTW, which supplies areas in South Devon and was commissioned during 2018/19. This builds on previous similar investments at water treatment works across our operating area over the last 15 years: Drift and Wendron WTWs (West Cornwall), Restormel WTW (Mid Cornwall), Allers WTW (Tiverton) and Pynes WTW (Exeter).

GAC technology brings multiple benefits for water supplies. It is a specially engineered porous material with a large internal surface area – just one teaspoon has the same surface area as a football pitch. Due to its large surface area and special surface chemistry it can remove natural and man-made organic matter sometimes present

in our water resources such as residual agri-chemicals and the natural precursors of taste and smell in supplies. The activated carbon material is used in granular form in filter beds through which water is passed to remove trace impurities during the water purification process.

A further benefit is that the granular carbon media can be regenerated once it has become saturated. This is achieved by removing the 'spent' media from filters after a number of years of service (whilst in use it is monitored closely for its effectiveness) and using a high temperature furnace to remove the collected impurities and reactivate the material for repeated service.

Looking forward we will continue to invest in this technology as part of our long-term strategy for drinking water quality. The new Mayflower WTW supplying Plymouth includes GAC technology and by the end of 2020 we will complete a further scheme at College WTW in Penryn, Cornwall.

In the 2020-25 investment period we are already planning GAC improvement schemes at Littlehempston WTW (supplying the South Devon and Torbay areas), Stithians WTW (Cornwall), Alderney WTW and Knapp Mill WTW in the Bournemouth area.

Our GAC schemes are designed to complement existing treatment technologies and are often installed alongside other modern treatment technologies such as Ultraviolet (UV) disinfection. UV disinfection uses UV light to destroy harmful bacteria and viruses sometimes found in untreated waters.

Completion of all of the GAC schemes described here will mean that the majority of our customers (approximately 75%) will benefit from the additional protection provided from GAC technology.





# AVAILABLE AND SUFFICIENT RESOURCES

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

## Water resources

Despite the challenge of an exceptionally hot and dry period during summer 2018 – which saw unprecedented demand, no water restrictions were placed on South West Water or Bournemouth Water customers during the year. This represents the 22<sup>nd</sup> year without water restrictions for South West Water and historically no restrictions in the Bournemouth Water area.

We remain well-placed in terms of our water resource position, largely thanks to our prior investment in reservoir storage and our capabilities to move water to where it is needed most. However, given future challenges such as population growth and climate change we continue to focus on reducing leakage and encouraging and supporting our customers to be more water efficient.

During autumn and winter we focused on replenishing our reservoirs to ensure we maintain resilient water resources for the future years.

Furthermore, we continue to improve our forecasting and analysis capabilities to give us the best possible data for supply and demand and ensure we are well-prepared for any extended periods of dry weather.

## Leakage

South West Water once again met its target to maintain leakage levels at a maximum of 84 megalitres per day. Leakage levels in the Bournemouth Water area were better than the previous year, remaining well within our performance commitment target.

During 2018/19 we significantly increased the resources and focus on leakage to manage the challenges from the 'Beast from the East' and the impact of the hot, dry summer which caused extensive ground movement as soils shrank in the dry weather.

We also accelerated future plans on leakage reduction through enhanced pressure management, asset replacement and the use of innovative technologies such as thermal imaging for leak detection.

In the Bournemouth Water area our outperformance was delivered through comprehensive pressure management as well as network modelling across the area.

## Management plan

South West Water's Draft Water Resources Management Plan was published in February 2018 and sets out how we intend to maintain a balance between the supply and demand for water over the next 25 years.

Over the spring and summer of 2018 we held a consultation on the plan. Overall feedback was positive and our plan was assessed as 'exceeds expectations' by Ofwat.

We published our Statement of Response in autumn 2018 in which we addressed all relevant comments. This included increasing our leakage reduction programme (to a 15% reduction) and increasing activity on water efficiency to reduce per capita consumption.

Our Drought Plan was approved in 2018 and work is underway to deliver the improvements outlined.

For further details please visit [southwestwater.co.uk/environment/a-precious-resource/water-resources-management-plan/](https://southwestwater.co.uk/environment/a-precious-resource/water-resources-management-plan/)



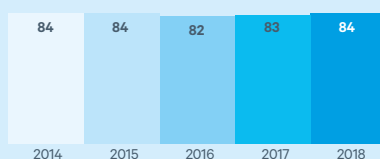
### NUMBER OF WATER RESTRICTIONS PLACED ON CUSTOMERS

0 0 0 0 0

£+/- 2018/19 target (0)  
2019/20 target (0)



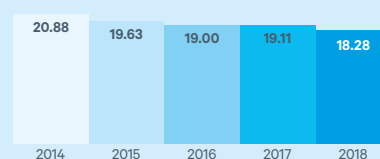
### LEAKAGE (Megalitres/day)



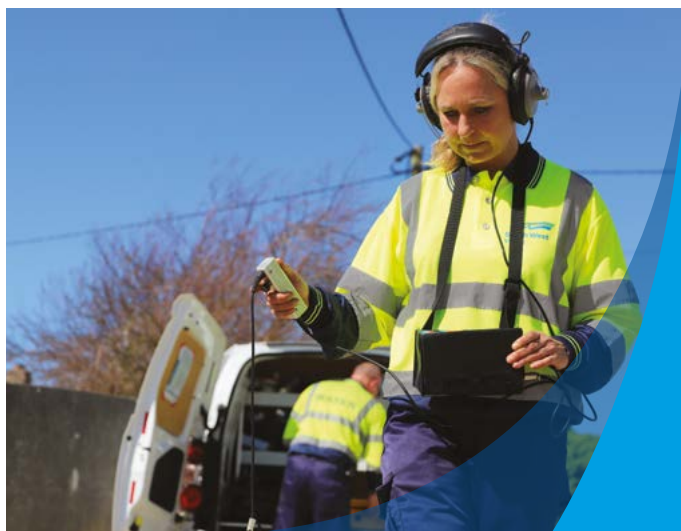
£+/- 2018 target (84)  
2020 target (84)



### LEAKAGE (Megalitres/day)



£+/- 2020 target (20)



## Harnessing real-time data to improve leak detection

Alongside investment in technologies for network monitoring (including telemetry, sensors and data loggers) South West Water is pioneering the use of real-time data to help identify and tackle leakage on its water network.

The Company is among the first to use 'live hydraulic models' which provide a fully up-to-date picture of how sections of the network are performing. This improves the efficiency and accuracy of operational responses to any issues, enabling repair work to be carried out in a more proactive way and minimising the impact on customers.

South West Water is currently working on expanding the system across the region and increasing its functionality to enable better forecasting of issues before they occur. Future plans also include the deployment of this technology to mobile field teams and customer-facing staff.

## Time taken to fix significant leaks

In 2018/19, we reduced repair times on significant leaks despite the impact of the prolonged dry, hot summer.

We continue to focus on fixing leaks as quickly as possible as we know this is a priority for our customers.

New technologies are allowing our technicians to pinpoint leaks quicker and we have also invested heavily in permanent sensors that alert us to problems on our mains network.

## Security of Supply Index (SoSI)

The Security of Supply Index (SoSI) is an industry-wide measure which considers water resource, leakage and demand management issues.

South West Water's achievement of the maximum score of 100 indicates that we have no deficit in any area.

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

## Large scale interruptions – resilience improvements to protect properties

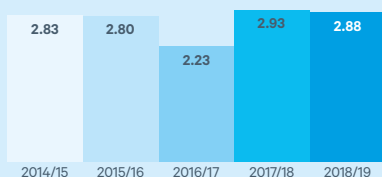
In the Bournemouth Water area we have a target to improve resilience of supply to 12,000 properties by 2020.

Having completed a scheme to lay a new trunk main (which has increased security of supply to 4,324 properties in the Wimborne area of Dorset), during 2017/18, we carried out design work on a second scheme that will increase resilience of supply to around 13,000 properties in the Westcliff area of Bournemouth.

The work will be completed in 2019 and therefore we expect to exceed our 2020 target.



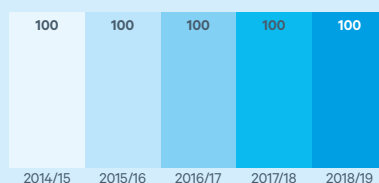
### TIME TAKEN TO FIX SIGNIFICANT LEAKS (Days)



Rep 2019/20 target (<2 days)



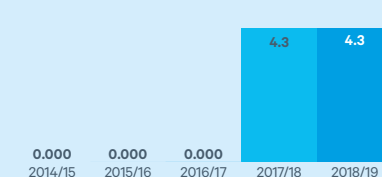
### SECURITY OF SUPPLY INDEX (SoSI)



Rep 2019/20 target (100)



### LARGE SCALE INTERRUPTIONS (Thousand properties improved)



£+/- 2019/20 target (12,000)

## Our water continued

### Available and sufficient resources continued

#### Average length of supply interruptions

Bournemouth Water continued to deliver industry-leading performance on minimising customer supply interruptions in 2018/19. This follows on from our best-ever performance in 2017/18.

Our performance of 0.7 minutes per property is well within our in-year target and 2020 target of 4.4 minutes/property.

This has been achieved through highly-effective management and operation of our water supply network supported by focused activity to address any outage as quickly as possible.

#### Per capita consumption

Bournemouth Water's per capita consumption increased in 2018/19 reflecting the exceptionally hot, dry summer driving increased demand.

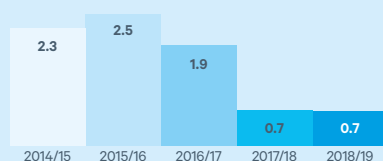
Moving forward and as part of our long-term plan for managing water resources, we have set challenging targets to continue to reduce per capita consumption.



Moving forward and as part of our long-term plan for managing water resources, we have set challenging targets to continue to reduce per capita consumption.



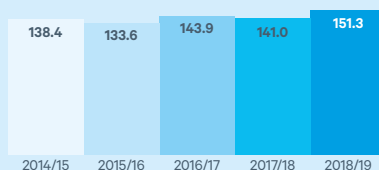
#### AVERAGE LENGTH OF SUPPLY (Mins/property)



£- 2018/19 target (4.4)  
 2019/20 target (4.4)



#### PER CAPITA CONSUMPTION (l/h/d)



Rep 2019/20 target (140.0)



# GREENREDEEM & ADVIZZO



In order to realise even greater savings for customers and reduce per capita consumption we have been trialling a number of initiatives which use behavioural science and customer data to improve water efficiency.

GreenRedeem is a community water-saving incentive scheme which launched as a pilot in July 2017. Eligible customers within a defined residential area are rewarded for using less water in the home.

We are also working with Advizzo on three behavioural change campaigns. These include a smart metering and meter switching campaign which provides customers with information relating to meter coverage in their neighbourhood, and details on how much they could save financially.





Our services

**VALUED  
AND  
TRUSTED**

## Our services

### 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 in the resilience outcome is focused on flooding. Further ODIs relating to the resilience theme are 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. For Strategic impact and risk rating see page 108.

- 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).

### Accountability



### Key

£+/-	Financial (penalty or reward)	✓	Met
£-	Financial (penalty only)	⊙	On target
Rep	Reputational	⊙	Not met (No financial penalty)
KPI	Key Performance Indicator	✗	Not met



## Our services



# RESPONSIVE TO CUSTOMERS

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

### Customer service (Service Incentive Mechanism)

South West Water achieved its best-ever performance against the Service Incentive Mechanism (SIM) – the industry-wide measure of customer satisfaction – beating the 2020 score of 85 ahead of target and being placed second in the overall industry customer experience league table.

Bournemouth Water meanwhile continued its excellent performance against SIM with a score of 87.6. This included a further 15% reduction in residential written complaints (which have reduced by 65% since 2015/16).

Our continued year-on-year improvement in customer satisfaction follows significant investment and focus on recruitment, training and developing the best people for our business, co-creation workshops with

customers and using 'Voice of the Customer' technology to better understand how we can meet customer needs. This has resulted in industry-leading water and wastewater customer experience performance and further reductions in written complaints.

Our strategy is focused on being more proactive in the way we interact with our customers, notifying them when issues may arise and ensuring we communicate using the most appropriate channel to meet their needs and expectations.

In 2018/19 this included rolling out our online MyAccount services to Bournemouth Water customers. This follows the implementation of a new billing system for the Bournemouth Water area.

### Customer satisfaction

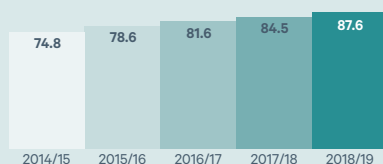
In addition to the improvements in the industry-wide SIM measure, South West Water's overall customer satisfaction percentage, as measured by our survey, increased to 93%.

South West Water's customer satisfaction with value for money has increased to our best ever score of 66%.

We continued to meet our pledge to ensure any rise in average household bills would be less than Retail Price Index (RPI) inflation over 2015-20. The average household bill has not risen for 2019/20, and is now lower than it was ten years ago.



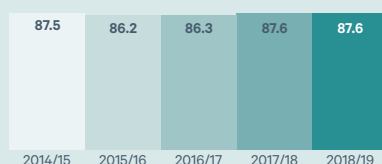
CUSTOMER SERVICE (SIM)  
(%)



£+/- 2019/20 target (85.0)

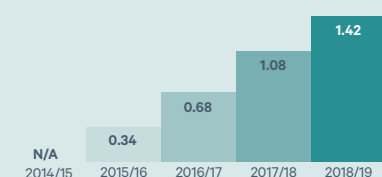


CUSTOMER SERVICE (SIM)  
(%)



£+/- 2019/20 target (89.0)

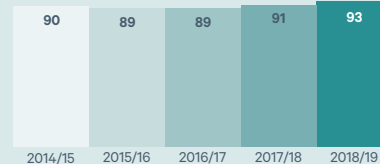
CUSTOMER RELATIONSHIP MANAGEMENT (CRM)



£- 2019/20 target (1.18)

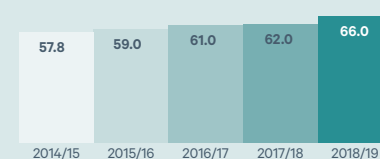


CUSTOMER SATISFACTION  
(%)



Rep 2019/20 target (90)

CUSTOMER SATISFACTION  
WITH VALUE FOR MONEY (%)



Rep 2019/20 target (90.0)

## Resolving contacts first time

Our strategy is to ultimately prevent any issues which cause customers to contact us. When they do need to get in touch our aim is to resolve all contacts as quickly and professionally as possible.

Our water team again performed especially well, exceeding both the 2018/19 and 2019/20 targets. This was their third successive year achieving performance in excess of 2019/20 target.

The volume of wastewater contacts resolved first time has improved. Although this is below the target for this year, further initiatives resulted in performance reaching the 2018/19 target of 94% in the last quarter of the year. This has ensured we remain on track to achieve the 2019/20 target.

## Repairing visible leaks

The percentage of all visible leaks fixed within seven days has increased from 62.4% in 2017/18 to 74.0% in 2018/19.

In the last months of the reporting year we consistently achieved a performance of around 80%, following a number of changes made to our systems and processes.

We are confident we can improve further on this success and achieve our 2020 target of 85%.

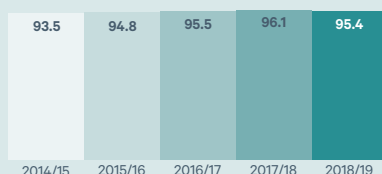
Unfortunately not all leaks can be dealt with as promptly as we would want. Some require extra planning, such as road or lane closures so the work can be carried out safely. We liaise closely with the highway authorities, customers and other stakeholders so that work can be completed at a time that causes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



Our strategy is focused on being more proactive in the way we interact with customers.

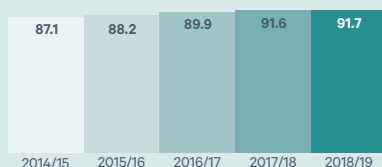


### OPERATIONAL CONTACTS RESOLVED FIRST TIME (DRINKING WATER) (%)



£+/- 2018/19 target (94)  
 2019/20 target (95)

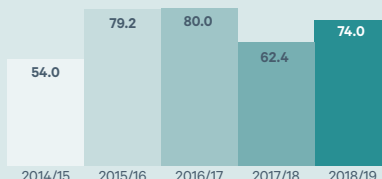
### OPERATIONAL CONTACTS RESOLVED FIRST TIME (WASTEWATER) (%)



£+/- 2018/19 target (94)  
 2019/20 target (95)



### REPAIRING VISIBLE LEAKS (%)



£- 2019/20 target (85)





# RESILIENCE

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

## Mitigating the potential impact of extreme weather and security threats

2018/19 was dominated by the exceptionally hot and dry weather in our region with the associated risk of drought rather than high rainfall or flooding events seen in previous years. This serves to underline the variability and unpredictability of our weather patterns and the importance of the resilience of our assets.

Our approach to resilience is embedded into our everyday business and helps ensure we are able to plan for and respond to extreme weather events and incidents.

To ensure our incident managers keep up to date with best practice leadership of incidents they are routinely required to attend emergency planning workshops run by the Devon and Cornwall Police and Local Resilience Forum.

A good example of our incident management is seen in the freeze and thaw incident in March 2018 where we received very positive feedback from our customers and our WaterFuture Customer Panel who, led by Professor Ian Bateman, prepared a report on the performance of the Company in response to this extreme weather event.

“The South West Water response appears to have been one of excellence across a wide range of inter-related and extreme challenges. The procedures and preparations made prior to this event seem to have worked well and the efforts of the staff appear to have been consistently exemplary” – Professor Ian Bateman, University of Exeter.

Our ability to protect our assets and respond to extreme events continues to be demonstrated by our strong performance across a number of key customer service measures and is also acknowledged by the regulator Ofwat.

We have seen significant improvement in identifying potential events and incidents through 24 hour process control and the rapid escalation of certain lead indicators whether they be identified from customer contacts or additional telemetry deployed across our network (no waters, low pressures). This central control and visibility ensures we are able to respond more quickly and effectively to the incident. The ‘golden hour’ is crucial in providing an effective response to events and mitigating the chance of any serious service failure to customers.

The result has been our best ever supply interruption performance in 2018/19, lowest ever number of discolouration contacts and serious pollution incidents, avoiding water restrictions for customers despite the very hot and dry summer and best ever wastewater compliance results.

South West Water has a strong information security framework and ensures that robust measures are in place, aligned to guidance issued by the National Cyber Security Centre (NCSC). This ensures we keep up with the fast changing cyber risk landscape.

South West Water has been certified to ISO 27001, the Information Security standard since November 2009.

We continue to develop the resilience of control systems further. During the year we have implemented automated asset inventory and code backups of our control systems, technology to isolate individual site data networks to limit spread of malware in the event of a cyber event, deployed uninterruptible power supplies to protect on-site servers and conducted scenario testing at sites to ensure we continue to deliver drinking water if the control system was unavailable.



There were no interruptions greater than 24 hours caused by flooding at our sites during 2018/19.





## Protecting operational sites from flooding

During 2018/19 we continued to develop our existing resilience capabilities.

Specific investments to protect assets have been delivered at a number of sites, ranging from improved wastewater handling at Prewley WTW near Okehampton, to our new Mayflower WTW on the outskirts of Plymouth. The latter will allow the decommissioning of Crownhill WTW which faces a number of risks due to its urban location.

We proactively exercised our deployment of flood contingency measures at four sites across Cornwall, Devon and Hampshire assessed as being most at risk of inundation from extreme flood events. The temporary flood barriers used in these exercises enable us to respond flexibly to actual or forecast flood events, as well as support our partners when needed through our Local Resilience Forum involvement.

There were no interruptions greater than 24 hours caused by flooding at our sites during 2018/19 – continuing our strong performance for this measure during the 2015-20 period. Specific investments to protect assets have been delivered at a number of sites, ranging from improved wastewater handling at Prewley WTW near Okehampton and to our new Mayflower WTW on the outskirts of Plymouth.

As part of our resilient solutions we continue to apply the principles of natural resilience through both our Upstream and Downstream Thinking programmes. These programmes target green sustainable solutions which look to remove surface water from catchments, slowing the water down and developing collaborative and sustainable solutions with stakeholders across the region. The examples below show the benefits of partnership working to customers, business and communities:

- Construction of the Exeter flood defence scheme on the River Exe was completed in this period – SWW contributed £1.5m towards the £32m Environment Agency Exeter Flood Defence Scheme as this helps protect our strategic trunk sewers in turn helping to prevent pollutions
- We have started exploring a collaborative opportunity with the Environment Agency in Calstock for next year – their Flood Defence works could deliver an embankment around the Calstock WWTW as part of their project, providing resilience and environmental protection benefits.

## Hot, dry summer

The three months from May to July 2018 were some of the driest and hottest on record. June in particular was very extreme in the South West of England. Rainfall totals were less than 20% of what we would normally expect, and in some areas there was no rain at all. In June there were more days above 25°C than in any other year on record.

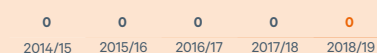
The high temperatures and dry weather meant we saw unprecedented demand all the way through the summer. Across the region, by July, the ground in the South West was the driest on record.

Despite this we were able to successfully manage our water resources to ensure we did not need to implement a hosepipe ban, nor apply to the Environment Agency for access to additional sources of water. Customers saw no loss of service despite the extreme weather.

However, we can expect these extreme, dry summers to become more common in the future. This is why we are investing heavily now in reducing leakage by a further 15% by 2025, offering all customers the choice to move to a water meter and supporting local and national work to help raise awareness of the importance of water efficiency.



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



## Our services continued

### Resilience continued

#### Business plan resilience

Resilience is the ability to cope with, and recover from, disruption, and anticipate trends and variability, in order to maintain services for customers and protect the natural environment now and in the future.

We are aware that for our service to be considered as resilient we must demonstrate a mature understanding of the level of financial, corporate, environmental and operational risk we face, and the consequences of those risks being realised. This requires our business to ensure the right skills, leadership, systems, processes and infrastructure are in place to support delivery of a robust, affordable, and reliable service to customers.

It is vital to ensure resilience is considered in the round.

Providing a resilient service is founded on strong operational resilience and high standards of financial and corporate governance. We have developed a plan that delivers long-term resilience in the round and long-term value for money for customers.

Various measures are used depending on the threat posed which can be categorised into one or more of the four 'Rs' – redundancy, resistance, response and reliability.

There have been a number of high profile events in recent times that have highlighted the challenges associated with the delivery of water and wastewater services in extreme conditions, from severe flooding through to periods of cold or hot dry weather and drought.

In March 2018, the South West of England faced the first ever red weather warning for snow and wind, coupled with extreme low temperatures and followed by a rapid thaw. During the summer of 2018 we experienced a period of high temperatures and exceptionally high demand.

These two extreme events, in quick succession, served to demonstrate our operational resilience, testament to decades of careful risk assessment, planning and investment, but also the improvements to continue to provide a resilient service to customers.

A resilient service improvement (RSI) project is already underway to tackle lessons learned from these stress tests of our business. This project also focuses on developing our service response to ensure customers can enjoy the same excellent level of service, anytime of day.

The extra resilience afforded by our integration of Bournemouth Water has allowed operational resources to be redeployed to those business areas most in need.

Our proposed licence expansion to provide the Isles of Scilly with water and wastewater services will provide much needed resilience to the Isles of Scilly community.

As a key member of the Local Resilience Forum (LRF) we are able to rely on this network to not only provide resilient support for our own business, but also to support the local community and other LRF members. A good example of this is seen in our purchase of temporary flood barriers which we use for protecting our own assets but which are also available for the LRF to use.

Our long-term financial resilience has been considered on page 101. Our corporate risks and mitigations have been reviewed on pages 109 to 116. Environmental risks are included within the corporate risk review, with performance being reported on pages 27 to 33.

## 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 events and incidents 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

## Resilience investment

Our business plan promotes long-term resilience, securing great customer service across all of our value chain and revenue controls at an affordable price.

Our resilience investment programme for 2020-25 will see the delivery of a range of customer centric projects which will further build on our track record of delivering resilient water and wastewater services for all of our customers.

This includes:

- The construction of two new water treatment works for the Bournemouth area
- Ensuring the long-term security and resilience of supplies in the region by managing demand
- Additional inter-zonal water supply linkages to bolster supplies most vulnerable during operational challenges or high demand periods
- Additional protection to assets most at risk of extreme floods or coastal and fluvial erosion by building new defences
- Duplication of critical sections of our mains network where the risk of recovery from failure is most significant
- System enhancements to protect electrical supplies from disruption and provide back-up generation where required
- Replacement of vulnerable control equipment and additional monitoring of our computer systems to prevent cyber crime

- Continuation of our long-term catchment management programme, 'Upstream Thinking'
- Upgrading of outdated assets and treatment processes on the Isles of Scilly to ensure islanders enjoy the same benefits of a resilient service as customers on the mainland
- Extension of our long-term drainage catchment approach, Downstream Thinking, which will deliver sustainable drainage solutions for our most vulnerable catchments
- Sewer separation in high risk locations
- Use of markets and cross company bioresources trades to improve resilience at lower cost
- Development of our long-term Drainage and Wastewater Management Plans and incorporation of our current Wastewater Drainage Strategy Framework Studies.

All of the interventions being progressed are in collaboration with other stakeholders and partners to ensure the most resilient outcomes for our customers.

“

South West Water set the standard for other companies to reach. While there is good work by companies on individual aspects of resilience, we want to see resilience in the round more firmly embedded across the whole of each water companies' business<sup>1</sup>.

<sup>1</sup> Ofwat quote <https://www.ofwat.gov.uk/wp-content/uploads/2019/01/PR19-initial-assessment-of-plans-Overview-of-company-categorisation-FINAL.pdf>





Our environment

# ESSENTIAL FOR LIFE

# Our environment

## 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. For Strategic impact and risk rating see page 108.

- 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).

## Accountability



## Key

£+/-	Financial (penalty or reward)	✓	Met
£-	Financial (penalty only)	⊙	On target
Rep	Reputational	⊙	Not met (No financial penalty)
KPI	Key Performance Indicator	✗	Not met



# RELIABLE WASTEWATER SERVICES

Removing and disposing of wastewater safely and efficiently.

## Internal sewer flooding

In 2018/19 internal sewer floodings were at their lowest levels, beating the 2018/19 and 2020 target. This is the direct result of a combined customer behaviour change programme aimed at reducing blockages 'Love Your Loo' and a targeted programme of sewer cleansing across known risk hotspots in our network.

Additional programmes are planned throughout 2019/20 to reduce numbers further. These include proactive CCTV investigations in flooding hotspots followed by sewer cleaning or repair and a project trialling installation of monitors in the network to pick up changes in levels before flooding occurs.

Despite the benefit of the drier weather over the summer this performance is expected to continue, remaining on track for 2019/20 and providing a strong platform for delivery of challenging targets post 2020.

## External sewer flooding

External sewer flooding performance continues to outperform the target for 2018/19 and 2020. This has also benefited from the customer behaviour change programme aimed at reducing blockages 'Love Your Loo' and a targeted programme of sewer cleansing across known risk hotspots in our network.

Additional programmes aimed at reducing internal sewer floodings are also targeting repeat external flooding hotspots. This will support a continued reduction in external flooding numbers.

This trend in performance is expected to continue and remain on track for 2019/20 providing a strong platform for delivery of challenging targets during 2020-25.

## Odour contacts

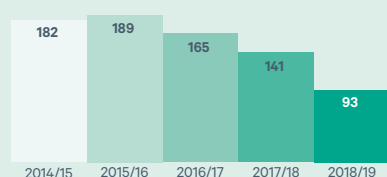
As a result of one of the hottest and driest summers on record and the consequential impact on wastewater processes, the number of odour contacts increased during 2018/19 marginally above our target of 322.

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 practice or deliver investments that reduce this impact. This is supported by a rolling programme of odour control media replacement and adherence to the site specific Odour Management Plans.

The unprecedented weather is not expected to recur in 2019/20 with underlying performance expected to return to historic levels which are ahead of targets.



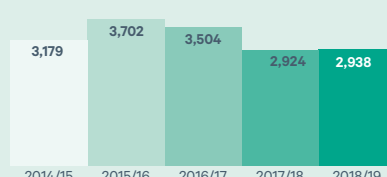
### INTERNAL SEWER FLOODING (Nr)



£+/- 2018/19 target (139)  
 2019/20 target (135)



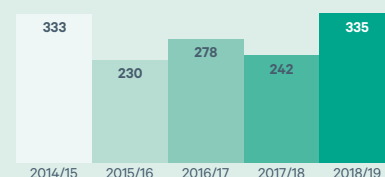
### EXTERNAL SEWER FLOODING (Nr)



£+/- 2018/19 target (3,260)  
 2019/20 target (3,200)



### ODOUR CONTACTS (Nr)



£+/- 2018/19 target (322)  
 2019/20 target (320)



## Devon's largest ever fatberg discovered in Sidmouth sewer

In autumn 2018, a 64-metre 'fatberg' – comprised largely of hardened fat, oil, grease and wet-wipes – was discovered beneath the seaside town of Sidmouth.

It took the South West Water team around eight weeks to remove and a sample was sent to the University of Exeter for analysis. While sewer workers carried out the removal using a combination of manual clearance and special jetting equipment, a pop-up shop was set up nearby to provide information to residents and visitors.

The substantial national and international media coverage provided an opportunity to remind people of the importance of only flushing 'the three Ps – pee, paper and poo'.

Bathing waters were unaffected.



## Sewer blockages and collapses

Our internal KPI to ensure the number of sewer blockages and collapses is below 9,200 by the end of the five-year regulatory period remains on track with a further reduction this year to 8,058.

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

## Compliance with sludge standards

South West Water recycles treated sludges, 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 2018/19 was 98.70%. The small non-compliance percentage was due to a minor sludge stockpile breach. Operational practices have been reviewed and our performance for future years is anticipated to return to 100% compliance.

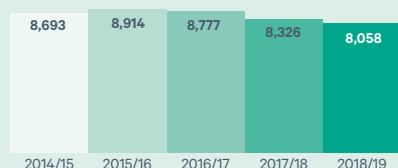
## Asset reliability

Wastewater asset reliability comprises a number of sub-measures in respect of both infrastructure (pipes) and non-infrastructure (processes). These are detailed in table 3B of the Regulatory reporting section (see page 152).

In line with the performance of the sub-measures during the year, the overall measure is assessed as 'stable'.



### SEWER BLOCKAGES AND COLLAPSES (Nr)

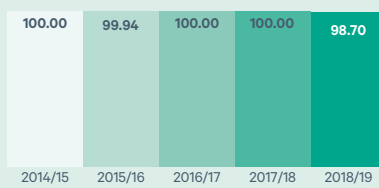


KPI

2019/20 target (9,200)



### COMPLIANCE WITH SLUDGE STANDARDS (%)



Rep

2018/19 target (100.00)

2019/20 target (100.00)



### ASSET RELIABILITY

#### Processes

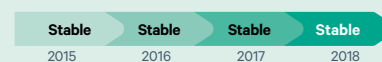


Rep

2018/19 target (Stable)

2019/20 target (Stable)

#### Pipes



Rep

2018/19 target (Stable)

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.

## Wastewater treatment standards

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 with permit on a population equivalent basis.

We continue to focus on improving the compliance of our wastewater treatment works and achieved our best-ever performance in the numeric compliance measure in 2018/19.

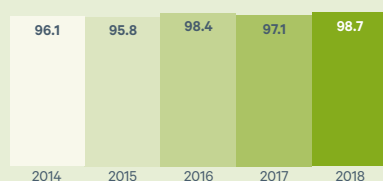
Only four out of the 301 sites tested were deemed non-compliant by the Environment Agency (EA) during the year. This marks a significant improvement on the previous year but further progress is required to meet our 2020 target of 100% compliance.

Our performance against the Population Equivalent Sanitary Compliance measure has also improved during the year. This reflects sustained improvements made at our largest sites.

Following 100% performance against the descriptive compliance measure in 2017 we were disappointed that failure of a single site reduced our performance to 99.7% in 2018. Improvements have been made to ensure we restore our 100% record.



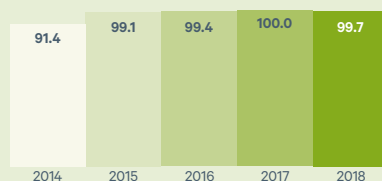
### NUMERIC COMPLIANCE (%)



£- 2020 target (100)



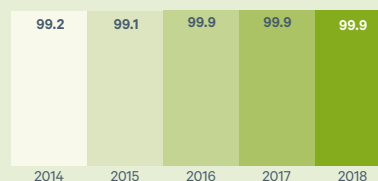
### DISRIPTIVE COMPLIANCE (%)



£- 2018 target (100)  
2020 target (100)



### SANITARY COMPLIANCE (%)



Rep 2020 target (100)

## Preventing pollution (wastewater)

In 2019 South West Water continued to improve its performance in reducing the number of serious (Category 1 & 2) pollution incidents.

There were two incidents in 2018, which was amongst the lowest in the industry.

Disappointingly the number of less serious Category 3 & 4 incidents has increased slightly from the previous year and we continue to target improvements in this area.

Self-reporting of pollution incidents improved significantly to 77% in 2018.

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

- Additional vehicles and equipment for pump station cleaning
- Revised business rules to ensure thorough root cause analysis and sharing of lessons learnt
- Working closely with local suppliers and universities to develop enhanced network of intelligence techniques
- Increased monitoring and maintenance activities, including the use of advanced CCTV techniques, targeted at hotspot locations for pollutions and flooding
- Additional investment in asset repairs in pollution hotspot locations.

## Preventing pollution (water)

Pollutions performance has been an area of focus for our business in response to our relative performance compared to industry peers and Environmental Agency (EA) expectations.

We have a good track record of avoiding the most serious pollutions and remain on track to avoid any serious water pollutions by 2020.

There was a decrease in 2018 (Category 3 & 4) as a result of a drive to improve self-reporting. We launched a training programme for our staff and suppliers, supported by the EA to emphasise both the importance of preventing such incidents and techniques to ensure they do not occur, such as appropriately diverting flows from burst mains, utilisation of settlement tanks and where necessary, de-chlorination techniques.

Improvement initiatives have been implemented and include:

- Environmental awareness campaign for all production and network staff
- Review of our pollution risk assessments at all of our production sites and implementation of new controls
- Modifications to a number of chemical storage systems
- Repair crews routinely using settlement tanks and de-chlorination equipment to avoid discharges in water courses.

## Sustainable abstractions

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

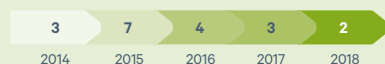
In 2018/19 the EA had not identified any improvements at any of our abstraction sites in respect of sustainability which were not complete at the end of the year.

Looking ahead as part of our future plans we have developed a new Abstraction Incentive Regime in the Otter Valley to help manage the competing needs of public water supply and the environment. We will look to start delivering this as part of our 2020-25 programme.

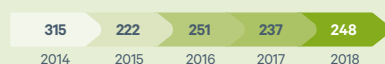


### WASTEWATER POLLUTION INCIDENTS

Cat 1&2

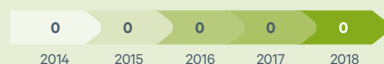


Cat 3&4

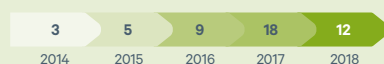


### DRINKING WATER POLLUTION INCIDENTS

Cat 1&2

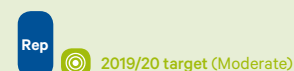


Cat 3&4



### SUSTAINABLE ABSTRACTIONS

Sustainable abstractions (EA water stress status)



Number of EA/WFD<sup>1</sup> improvements required



<sup>1</sup> EU Water Framework Directive.



## Our environment continued

### Protecting the environment continued

#### Carbon emissions

South West Water is on track to outperform its combined 2019/20 target for carbon emissions of 150ktCO<sub>2</sub>e. The balance of reductions differs between water and wastewater activities.

Operational emissions calculated for 2018/19 continue the recent trend of reductions which have now taken us well below the combined target.

Carbon emissions from water activities during 2018/19 dropped by 0.4%. In the wastewater area of the business the reduction is even greater with emissions down 14.5%.

A drier than average year saw less energy required to pump and treat wastewater and this also played a role in the significant reduction in emissions. Conversely, there were implications for our water operations in terms of increasing the required treated volume to cope with additional demand.

The continued decarbonisation of UK grid electricity has played a significant role in helping South West Water to sustain year-on-year reductions in emissions. This, coupled with the steps we have taken ourselves to

help control our energy usage, is consistently moving us towards our longer-term carbon reduction aspirations.

Our energy efficiency work includes the refurbishment and sometimes replacement of pumps and motors. In 2018/19 this included the replacement of a number of large pumping assets.

South West Water continues to be certified to the Energy Management Systems standard ISO 50001. Following on from this, a number of measures have been implemented to help us further reduce energy usage, including:

- the identification and separate metering of assets that use the most energy
- the installation of new permanent real-time monitoring on our largest and most energy intensive assets.

We also plan to continue with our programme to identify and prioritise energy saving projects which provide the biggest overall reduction in emissions.

#### Energy used in water delivery

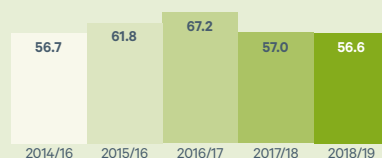
Within the Bournemouth area we have measured the efficiency of our processes based on a measure of kWhs of grid imported electricity per megalitre (ML) of water supplied into the distribution network. During 2018/19 this value was calculated to be 617.73kwh/ML. This represents a marginal increase from the previous year's calculated output of 604.93kwh/ML.

This increase reflects the addition of new process equipment, including some further UV treatment at our large Water Treatment Works in the Bournemouth Water area.

Work continues in the Bournemouth area to improve the efficiency of energy usage to reverse the current increase.

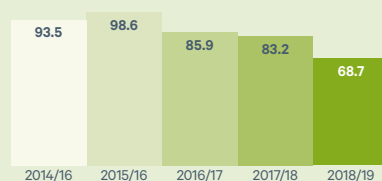


**CARBON EMISSIONS (WATER)**  
(%)



Rep 2019/20 target (48)

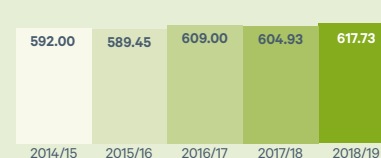
**CARBON EMISSIONS (WASTEWATER)**  
(%)



Rep 2019/20 target (102)



**ENERGY USED IN WATER DELIVERY**  
(Kwh/ml)



Rep 2019/20 target (530.0)

## Energy from renewable sources

The proportion of electricity we use that is generated from renewable sources has continued to increase this year.

During 2018/19 total renewable electricity usage reached 14.8% of total electricity. This increase keeps us on track to achieve our renewable energy target to source 20% of our electricity needs from renewables by 2019/20.

Both water and wastewater functions have increased their respective shares of renewable electricity consumption, with water at 9.5%, in 2018/19 and wastewater at 5.4%.

The majority of the renewable electricity which South West Water sources is self-generated through a combination of hydro power (3.88%), combined heat and power (CHP) (2.15%), photovoltaic (PV) solar (0.67%) and wind (<0.04%).

In addition, the company purchases renewable electricity via power purchase agreements with third party solar PV electricity providers. For these types of opportunities power is supplied through private wire with the solar PV arrays located adjacent to, or in close proximity of, the South West Water sites. In 2018/19 this form of renewable electricity sourcing contributed 1.5% of our total electricity consumption.

## Catchment management

Our award-winning 'Upstream Thinking' programme of catchment management is supporting farmers to access capital grant funding to make improvements, comply with legislation and reduce the risk of pollution.

Since 2010, South West Water has worked to improve the water quality at 1,537 farms upstream of water reservoirs and river abstractions.

We have also restored 10,192 acres (4,125 hectares) of moorland, culm grass land and other semi-natural habitats, and have therefore already exceeded our 2020 targets for catchment management.

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.

## Supporting a natural environment

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

We are committed to going above and beyond our statutory obligations and have provided an annual review of environmental projects in the Bournemouth Water area to Natural England and the Environment Agency including progress made and further activities to be undertaken by 2020.

We have in place environmental management plans for 18 sites across Bournemouth. We are also rolling out management plans across more sites as part of our long-term commitments to continually improve biodiversity and the environment.

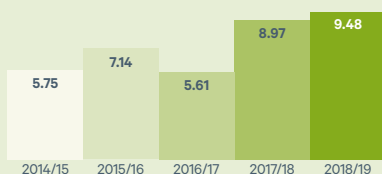
Overview

Operational performance

Regulatory reporting

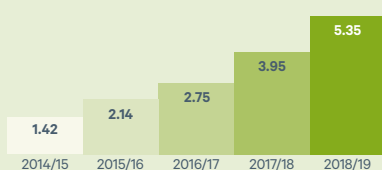


### ENERGY FROM RENEWABLE SOURCES (WATER) (%)



Rep 2019/20 target (12.20)

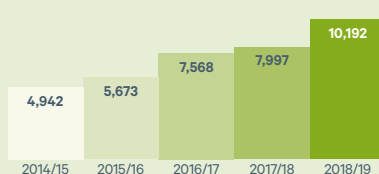
### ENERGY FROM RENEWABLE SOURCES (WASTEWATER) (%)



Rep 2019/20 target (7.80)

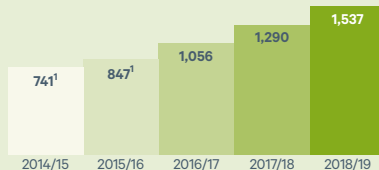


### CATCHMENT MANAGEMENT (ACRES) (Nr)



Rep 2019/20 target (8,154)

### CATCHMENT MANAGEMENT (FARMS) (Nr)

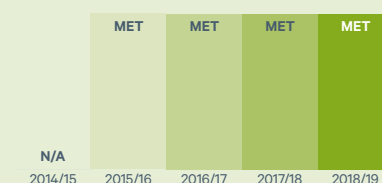


Rep 2019/20 target (1,400)

<sup>1</sup> as amended in line with up to date information.



### SUPPORTING A NATURAL ENVIRONMENT



Rep 2019/20 target (MET)





Our people and community

# QUALITY OF LIFE



## Our people and community

### 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 Wellbeing, 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.

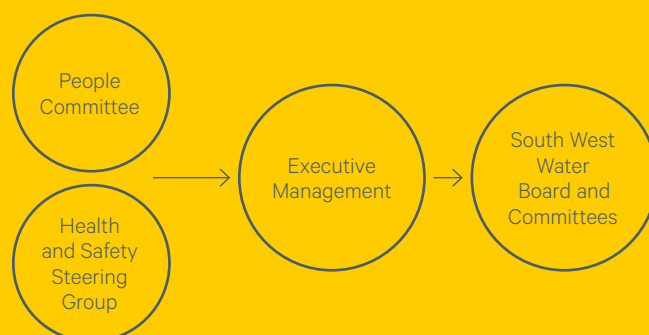
### Risks

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

For Strategic impact and risk rating see page 108.

- Non-compliance or occurrence of avoidable health and safety incident (Risk E)
- Tax compliance and contribution (Risk F)
- Difficulty in recruitment, retention & development of skills (Risk M)
- Non-delivery of regulatory outcomes and performance commitments (Risk N).

### Accountability



### Key

£+/-	Financial (penalty or reward)	✓	Met
£-	Financial (penalty only)	⊙	On target
Rep	Reputational	⊙	Not met (No financial penalty)
KPI	Key Performance Indicator	✗	Not met

## Our people and community

# 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.

Assessments were made by Defra at 151 designated bathing waters. Across the two counties 149 (98.7%) were rated as 'sufficient' or better and 118 beaches (78.1%) were classed as 'excellent'.

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

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

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

To protect river water quality and ecosystems we aim to ensure that the wastewater we return to the environment is treated to high standards.

During 2018/19 South West Water has continued to focus on ensuring compliance with new and/or tighter permits for our wastewater treatment works, with schemes ongoing at Bradninch, Silverton and Sandford.

Further significant improvements are planned at a number of other sites in 2019/20 including schemes at Cullompton and Honiton. South West Water remains on track for its 2020 target once these schemes are completed.

The majority of these improvement schemes are designed to reduce the level of phosphorus in treated wastewater.



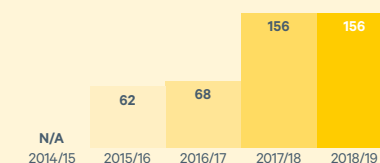
#### BATHING WATERS



Assessments were made by Defra at 151 designated bathing waters. Across the two counties 149 (98.7%) were rated as 'sufficient' or better and 118 beaches (78.1%) were classed as 'excellent'.



#### TOTAL KM OF RIVER IMPROVED



## Sponsorships and charity donations

In 2018/19 South West Water provided c.£210,000 in community sponsorship support and charitable donations. This ensures that we are on track to deliver our Business Plan ODI commitment of spending £80,000 per annum as part of our Community Scorecard.

In addition, the 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.

Using the Business in the Community framework, which marries core business activities with identified community and social needs, a number of sponsorship partnerships have been developed, including:

- The South West Coast Path Association
- Surf Life Saving GB
- Devon and Cornwall Wildlife Trusts
- Environment Plymouth, which is dedicated to making Plymouth Sound plastic-free
- Beach Schools South West, an outdoor learning charity
- Improving Lives Plymouth, which supports and inspires people to improve their health and wellbeing
- South West Youth Games, aimed at improving the health and wellbeing of young people in the region.

Through our charitable donations programme, South West Water supports the following charities, chosen by employees, as well as supporting staff fundraising activities:

- WaterAid – the water industry's adopted national and international charity
- Royal National Lifeboat Institution (RNLI)
- Age UK
- Devon & Cornwall Air Ambulance Trusts
- Devon & Cornwall Food Action.

## Community engagement

In 2018/19 South West Water's dedicated community team attended 32 high-footfall events including the Devon County and Royal Cornwall Shows.

We also participated again in the Heritage Open Days initiative and hosted behind-the-scenes tours for a total of 500 people at four operational water and wastewater sites across the region.

In the Bournemouth Water area, the team attended the Christchurch Carnival, offering advice and water efficiency devices.

Bournemouth Water also continued to support the Hampshire & Isle of Wight Wildlife Trust, the Bournemouth 2026 initiative and the New Forest National Park Authority's Living Waters project.

## Access, conservation and recreation

Our partnership with South West Lakes Trust (SWLT) ensures 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 71,000 people took part in organised recreation including sailing, windsurfing and kayaking.

4,600 participants also learnt new skills through the Trust's heritage and environmental education programme.

## Support for education

South West Water's community team directly engaged with 1,300 primary schoolchildren about the water cycle in classrooms and school assemblies.

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 31 primary schools in the Bournemouth Water area, reaching 2,822 pupils.



## ReFill – helping tackle the plastic crisis

As a co-founder and ongoing supporter of ReFill – the award winning campaign to encourage the use of refillable bottles – South West Water is helping to reduce the use of plastic bottles.

The campaign was launched in the UK in Bude, Cornwall in 2014. Since then, more than 1,200 locations (such as cafés, hotels, restaurants and shops) have registered with ReFill in Devon and Cornwall, allowing the public to top-up their water bottles for free.

South West Water is supplying 3,000 stainless steel bottles to Keep Britain Tidy, South West Water's BeachCare partner, for onward distribution to local communities. The Company is also working with councils and other partners to support the expansion of ReFill across the South West, the first of which was founded at Bude earlier this year. More are planned in locations such as Plymouth and Exeter.



### COMMUNITY SCORECARD

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



## Our people and community continued

### Benefiting the community continued

#### Employee Volunteering

South West Water has an active volunteering programme which enables staff to take part in agreed community projects, including beach cleans and habitat restoration.

The number of Bournemouth Water/ South West Water staff participating in volunteering schemes in the Bournemouth area has fallen. As per the Final Determination, South West Water will mitigate any shortfall in its number of days by contributing to a charity chosen by the Customer View Group.

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 that enhance the community.

For 2019/20 South West Water aims to significantly increase employee engagement, enabled by new volunteering guidance. This encourages employees to support a wider range of volunteering activities, as well as the company-wide support for the Year of Green Action, part of the Government's 25 Year Environment Plan.

#### Apprenticeships

Apprenticeships play a key role in our sustainability strategy as we recognise the need to nurture talent for the future and ensure vital skills are retained.

Since its launch in 2011, South West Water's apprenticeship scheme has grown, with 242 apprentices having been employed by the Company.

Having achieved our 2020 apprenticeship target in 2017, we continue to expand our programme and employ the majority of the apprentices who complete their apprenticeships.

#### Support for our people

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

Employee engagement has improved in this year's survey results by 3% to 77%, with productivity increasing during the year and staff attendance levels remaining strong at 97%. Action plans have been implemented in all areas of the business to improve satisfaction and engagement levels as part of our normal follow up to our employee survey.

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

#### Health, Safety & Wellbeing

In 2018/19 we continued with the roll-out and development of the Pennon Group-wide "HomeSafe" programme, designed to ensure consistent health and safety practices and a safe culture of work.

A core aim is to improve our key safety measure known as LTIFR (lost time injury frequency rate<sup>2</sup>) from 1.62 recorded for 2017/18 to 0.50 by 2025, which would place South West Water in the top quartile of the industry.

#### RIDDOR<sup>1</sup> and LTIFR<sup>2</sup>

In 2018/19 there were 13 RIDDOR incidents in the South West Water area and one RIDDOR incident in the Bournemouth Water area.

The increase in RIDDORs from 2017/18 to 2018/19 was primarily attributable to incidents of slips, trips and falls whilst working in the field. Management actions are ongoing to improve performance.

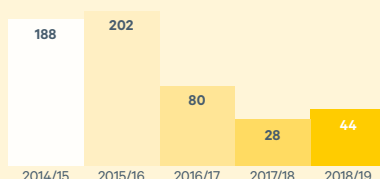
With the implementation of the Group's HomeSafe programme the LTIFR across the Company has reduced to 1.50 in 2018/19 and we are therefore on track to reduce this to 0.50 by 2025 as well as reducing the number of RIDDOR incidents.

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.



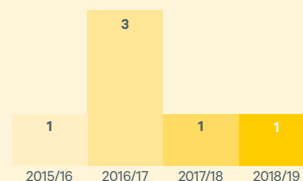
#### CONTRIBUTION TO OUR COMMUNITY



Rep 2019/20 target (175)



#### RIDDOR



KPI 2019/20 target (650)



# HOMESAFE OUR PEOPLE

Across the Penmon Group we are committed to the highest standards of health and safety. In recent years 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 learnings 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.

In 2018, to support and acknowledge the success of HomeSafe, we launched the inaugural CEO's HomeSafe Awards to recognise excellence in health and safety across the Group.



Our finance and economy

# VALUE AND EFFICIENCY



## Our finance and economy

### 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

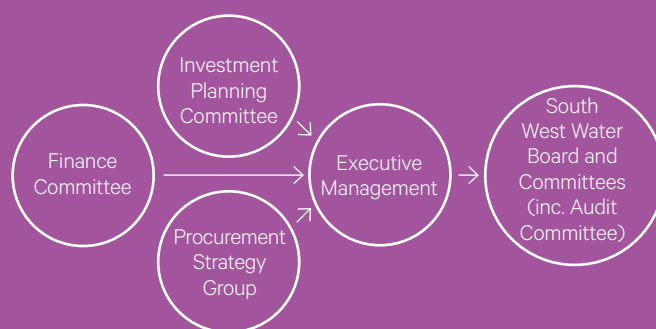
Building on our current ODIs, for 2020-25, based on feedback, a suite of four performance commitments around affordability and fair bills have been developed.

### Risks

The following principal risks are considered to be relevant to this area. For Strategic impact and risk rating see page 108.

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

### Accountability



### Key

£+/-	Financial (penalty or reward)	Met
£-	Financial (penalty only)	On target
Rep	Reputational	Not met (No financial penalty)
KPI	Key Performance Indicator	Not met

## Our finance and economy



# 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 who are struggling to pay

While we continue to focus on delivering services as efficiently as possible we recognise that some customers may struggle to pay their bills.

In the past year, we have continued to offer support to customers through one or more of our affordability measures. To date, our affordability measures have helped around 57,000 customers, with c.23,000 customers benefiting from our social tariff.

In 2018/19 we expanded our WaterCare advisor team and launched our WaterCare App which enables advisors and partner organisations to assess a customer's eligibility quickly and easily during a home visit.

Since the App was launched 444 home visits have taken place with 453 schemes processed resulting in around £139,000 of financial help provided.

In addition, we have provided training to 80 partner organisations (c.1,600 employees/volunteers). This is helping to extend our reach and ensure customers who need help can access it in many different ways.

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 benefits check that we do realises on average an additional £42/week in income to the household.

We also continue to promote the benefits of metering, not least through water home audits and the provision of free water-saving devices.

### Domestic customers paying a metered bill

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

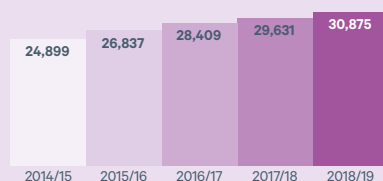
82.8% of our customers now pay a bill based upon actual usage – just slightly below our target for 2020.

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

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



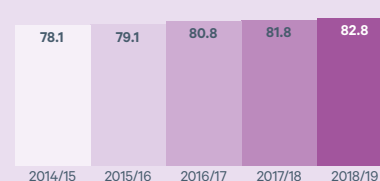
CUSTOMERS ASSISTED BY WATER  
POVERTY INITIATIVES



Rep 2019/20 target (23,210)



CUSTOMERS PAYING A METERED BILL  
(%)



£- 2018/19 target (83.8)  
 2019/20 target (84.7)

## Fair Tax Mark accreditation

In 2018, Pennon become the first water services and waste management utility to secure the Fair Tax Mark.

The independent accreditation scheme recognises organisations which demonstrate they are paying the right amount of corporation tax at the right time.

Factors contributing to our certification include:

- All operations and subsidiaries are subject to tax in the UK

- A detailed and highly accessible tax strategy, which explains clearly the impact of capital allowance tax reliefs
- Excellent tax notes that provide a detailed numerical reconciliation and narrative for any deviations from the expected headline corporation tax rate
- An average current tax charge of £28m per annum over the last four years.



Overview

Operational performance

Regulatory reporting

## 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

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

We have now installed 7,872 meters and remain on track to achieve the 2020 target.

## WaterShare mechanism

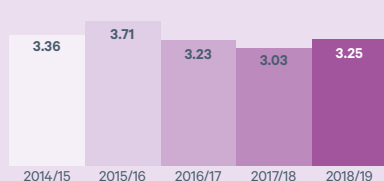
South West Water has in place a unique WaterShare mechanism to share net benefits with customers through reinvestment options, future bill reductions and service improvements exceeding planned targets. WaterShare reflects the established Regulatory mechanism for sharing totex outperformance but also allows customers to share in financing outperformance from movements in the market rates for new debt instruments. In addition, specific items are also shared with customers – with differing rates depending on the Company delivery.

South West Water continues to share the benefits of business outperformance between customers and shareholders through its unique WaterShare mechanism. We have identified around c.£6m of customer benefits during the year.

Since 2015, £110m of cumulative benefits have been identified to share with customers through future bill reductions, ODI service improvements and investment in services in addition to funding of our new Watershare+ share scheme. This reflects £80m of totex savings, £11m of net outcome delivery incentives (ODI) benefits and £19m of other benefits (including financing). These totex savings and efficiencies (including the forecast to 2020) have been reflected in the 2020-25 business plan, lowering bills for customers over the next regulatory period.



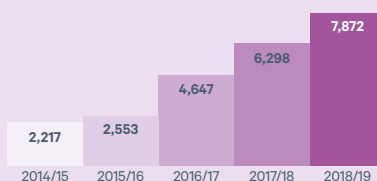
FAIR CUSTOMER BILLS (%)



Rep 2019/20 target (between 3 and 3.76)



METERS INSTALLED (Nr)



£- 2019/20 target (9,300)



## Our financial performance

# Financial PERFORMANCE

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

### Highlights

South West Water demonstrated continued outperformance in 2018/19 reflecting strong cost control and resilience in the face of extreme weather conditions during the year.

### Revenue

Total revenue<sup>1</sup> increased by 1.7% to £582.4m reflecting tariff increases of 1.0%<sup>2</sup> and an increase in total customer demand of 1.4% primarily resulting from the hot, dry summer.

An additional £3.9m of revenue was generated by c.8,300 new customer connections in the South West region and c.700 in the Bournemouth Water region.

82.8% of South West Water's customers are now benefiting from a metered supply, with c.5,800 customers opting for a meter in 2018/19. 72% of customers in the Bournemouth Water region are metered with 1,552 switching 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 higher than anticipated; following several years of growth and positive weather impacts a demand reduction was expected and assumed within the 2018/19 tariffs. Actual revenue increased due to developer activity and new connections at higher levels than in prior years.

This revenue was above the forecast level but less than the 6% regulatory tolerance levels and will result in a penalty of £0.6m through the Wholesale Revenue Forecast Incentive Mechanism (WRFIM). The overall recovery can be seen in table 21.

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 reconciliation<sup>3</sup>

	Water		Wastewater
	Bournemouth Water £m	South West Water £m	South West Water £m
<b>Final Determination revenue allowance (outturn prices)</b>	<b>36.9</b>	<b>204.8</b>	273.4
Customer demand and profile	0.2	7.0	8.7
New connection numbers <sup>4</sup>	(1.4)	1.5	2.6
Meter optants	0.1	0.2	0.4
Capitalised requisitions	0.0	0.4	(0.8)
<b>Actual outturn (see table 21)</b>	<b>35.8</b>	<b>213.9</b>	284.3

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

<sup>4</sup> 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 year<sup>1</sup> were £333.3m (2017/18: £325.7m). The key movements in costs reflect:

- Around £5m of atypical costs relating to the adverse weather (both the 'Beast from the East' driving leakage and the exceptionally hot, dry summer increasing water delivery costs)
- Efficiencies delivered in the year including further efficiencies following the integration of Bournemouth Water
- Lower doubtful debt charges.

The overall underlying increase in operating costs is lower than average inflation for the year of 3.1%.

### Capital expenditure

Capital additions for the year were £154.0m<sup>1</sup> compared to £184.0m in 2017/18. The key areas of focus remain:

- Improved drinking water quality
- Ensuring a high level of bathing water quality
- Delivering environmental improvements (including a targeted strategy to reduce pollution incidents).

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

- £10.8m of expenditure to reduce leakage
- £10.1m in continued work at Mayflower Water Treatment Works (WTW) including the new trunk main at Coombe Lane, which is now in the testing phase
- £6.4m water distributions network delivering further resilience to customers in Plymouth and the surrounding area
- £5.9m wastewater treatment delivering improved river quality by reducing Phosphorous in effluent
- £4.6m Information Systems (IS). Investments include our data communications networks to maintain resilience of our asset monitoring and performance reporting, our Business Intelligence and Analytics platform, providing greater insight to support reductions in pollutions and consolidation of our billing system for customers access to MyAccount and paperless billing.

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

<sup>2</sup> Tariff increase reflects the net position post Wholesale Revenue Forecast Incentive Mechanism (WRFIM) pass back of £11.8m.

## 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.

During 2018/19 pension deficit repair costs have recommenced (£11.3m) following a three year advancement of payments in 2015/16.

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

## Wholesale expenditure

	Water £m	Wastewater £m
<b>Final Determination totex allowance (2012/13 prices)</b>	<b>164.2</b>	162.5
Key drivers:		
Capital efficiencies and cost savings	12.8	8.8
Timing of capital schemes	1.1	3.1
Non-recurring exceptional costs	0.7	0.7
Timings of pension deficit repair costs	0.1	1.1
Other efficiencies and cost savings	(14.3)	(15.9)
<b>Actual totex (2012/13 prices)</b>	<b>139.0</b>	142.7

## Our financial performance continued

### Retail

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

- Restructuring within Source Contact Management Limited (providers of South West Water retail services)
- Continued bad debt management
- Synergies in corporate costs and allocations.

Driven by strong collections performance and working with customers to manage their debt, the doubtful debt charge as a percentage of revenue fell further this year. Net debts totalling £10.4m (2017/18: £9.4m) were written off against the provision during 2018/19, of which £1.7m related to personal and commercial bankruptcy and £0.9m related to our ReStart programme, a South West Water customer affordability initiative.

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

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

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

### Retail expenditure

#### Final Determination totex allowance (2012/13 prices)

##### Key drivers:

Bad and doubtful debts	(2.5)
Other cost movements	(3.6)

#### Actual totex (2012/13) prices

Retail  
Household  
£m

**33.6**

(2.5)

(3.6)

**27.5**

### Net finance costs

Net finance costs for the appointed business have increased from the prior year to £72.6m, predominantly reflecting the higher interest on RPI index-linked debt. Aligned with the regulatory accounting guidelines, capitalised interest of £2.5m has been included in the appointee regulated interest charges.

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover for 2018/19 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 117 to 118.

Dividends of £123.1m were paid to the parent undertaking, representing a base dividend of £57.8m, £59.8m of outperformance dividend based on cumulative performance for 2017/18 and an outperformance dividend of £5.5m for 2016/17. The dividend was calculated with reference to the projections in the Ofwat 2014 Final Determination and the assumptions for 2018/19 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 Group's Code of Conduct
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws.

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

In December 2018 Pennon became the first water services and waste management utility to secure the Fair Tax Mark, an independent certification scheme which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time.

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.



## Corporation tax

The total appointee current tax charge for the year was £28.0m (2017/18: £25.3m). The Company made a net payment of £11.9m<sup>1</sup> of UK corporation tax in the year (2017/18: £38.7m).

The current corporation tax charge which is included within the tax charge, increased from 2017/18, this reflects principally an increase in depreciation.

The appointed current tax charge of £28.0m 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 £0.5m for the year primarily relates to timing differences between depreciation and capital allowances including adjustments relating to prior year.

In respect of the overall appointed current tax charge of £28.0m, £7.4m has been assumed for Group relief (relating to current and prior years).

In relation to the taxable profits calculated for 2018/19, 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
<b>Final Determination current tax allowance</b>	<b>14.7</b>
Key differences:	
Impact prior years	(3.9)
Impact of change in taxation rates	(0.7)
Difference in profits	16.0
Depreciation and capital allowance impacts	(0.6)
Pension adjustments	2.0
Finance lease allowances	0.8
Other adjustments	(0.3)
<b>Current tax charge</b>	<b>28.0</b>

## Taxation

	Appointee £m
<b>Profit before tax</b>	<b>174.5</b>
Profit before tax multiplied by the standard rate of UK taxation (19%)	33.1
Capital allowances for the year	(21.9)
Depreciation	22.6
Pension adjustments	0.3
Finance lease allowances	(2.0)
Other adjustments (including prior year adjustments)	(4.1)
<b>Current tax charge</b>	<b>28.0</b>

<sup>1</sup> This is comprised of £23.2m of net payments to HMRC and £11.3m net receipts from other Group companies.

## Our financial performance continued

### Liquidity and debt profile

The Company has a strong liquidity and funding position with £326.4m of cash and deposits at 31 March 2019 (including £202.6m of restricted funds representing deposits with lessors against lease obligations)<sup>1</sup>. In addition the Company has £195m of undrawn facilities. Cash and current asset investments of £3.1m 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 2019 the Company's loans and finance lease obligations totalled £2,391.9m. After the £326.4m held in cash deposits this results in net debt of £2,065.5m (a small decrease of £5.5m during the year).

The Company's debt has a maturity of up to 40 years with a weighted average maturity of 21.9 years. The Company has fixed, or put in place swaps to fix the interest rate on at least 50% of its debt for the regulatory period (K6 2015-20).

The Company also has £598.0m of index-linked debt with an average maturity of 29.3 years at an overall real rate of c.2.0%. As a result of these initiatives South West Water's nominal average effective interest rate for 2018/19 is 2.60% (Table 1E).

### Key metrics

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

#### REGULATORY CAPITAL VALUE (RCV)

RCV is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review. At 31 March 2019 RCV equalled £3,504.7m with RPI at the year end of 3.1%. RCV at 31 March 2018 was £3,431.2m.

#### REGULATED GEARING

The regulated gearing of 58.9% 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 10.47% (11.53% cumulative) has been calculated as profit after current tax for the appointed business as a percentage of average regulated equity.

#### DIVIDEND YIELD

The dividend yield of 8.5% is calculated as the total appointed dividend for the year of £123.1m on the regulated equity of £1,439.0m. This compares to a dividend yield of 8.9% for 2017/18.

#### DIVIDEND COVER

The dividend is covered 1.19 times and has been calculated as the profits of the appointed business for the year before dividends divided by total appointed dividend for the year.

#### INTEREST COVER

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover of 6.0 times for 2018/19 is both within the required levels for financial covenants and in line with expectations.

#### ADJUSTED INTEREST COVER

The low interest rates also result in strong adjusted interest cover of 3.2 times for 2018/19. This adjusted interest cover deducts regulatory depreciation (which is defined in the Final Determination) from the funds from operations calculated as covering interest.

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

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

South West Water performed well during the year. South West Water's Return on Regulated Equity (RoRE) performance continues to be sector leading and is outperforming our business plan with 11.8% delivered in the year (11.6% based on our WaterShare RoRE approach). RoRE is calculated using actual results before non-underlying items (deflated into 2012/13 real prices) and compared against the Final Determination allowances, based on notional gearing (at 62.5%), annual average RCV and taking into account tax impacts of outperformance. It arises from base returns 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 the cumulative forecast RPI over the K6 period – currently forecast at 2.8%. All other elements of RoRE are calculated consistently with Ofwat's approach.

For 2018/19, South West Water achieved a RoRE of 11.6% with a cumulative position of 11.8%.

Ofwat guidance to companies requires financing outperformance to be calculated using the in-year average RPI rate of 3.1% (2015/16: 1.1%, 2016/17: 2.1%, 2017/18: 3.7%) to calculate the real effective interest rate. This results in a total RoRE of 11.8% for 2018/19 (2017/18: 12.4%). In addition, the RoRE reported in table 4H of 11.53% is a cumulative average over the four years of K6 (2015-20). South West Water's RoRE remains sector leading under this approach.

## TOTEX OUTPERFORMANCE

South West Water is striving for ever greater efficiency and is confident in maintaining the momentum achieved in the current regulatory period to date. As a result £237m of cumulative totex savings to 2018/19 (£60m delivered in the year) compared to the Final Determination allowances have been delivered to date. These savings are driven by:

- Continuing advantages from our strategic alliances including a new water distribution framework and the H50 capital alliance now also delivering efficient schemes within the Bournemouth region
- Ensuring efficient capital investment through the use of data analytics optimising capital and operating solutions and promoting efficient off-site build techniques
- Changing ways of working including utilising new technology and equipment to increase the resources needed to deliver wastewater improvement, real-time pressure 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 23 ODIs and Bournemouth Water has 10 ODIs, which have potential financial rewards or penalties. Incentives for performance are recognised in the year of delivery (for the purposes of this calculation, though not accrued in the financial statements), whether the measure is recovered in period or as a regulatory true-up at the end of the period.

Overall our operational performance is ahead of committed performance levels, resulting in continued net rewards in the ODI mechanism, despite challenges from the cold weather in March 2018, followed swiftly by a hot, dry summer and an increase in demand.

Operational performance for the full-year resulted in a net ODI reward of £4.1m (£11.3m cumulatively over the first four years of K6), reflecting annual equivalent RoRE outperformance of 0.3% to date. We maintained good asset reliability and stable serviceability across all water and wastewater areas and received rewards for bathing water quality and water restrictions. Following improvements in internal and external sewer flooding from last year, we received a reward for performance this year.

The cumulative net reward of £11.3m comprises £14.4m of rewards recognised at the end of the regulatory period and £3.1m of net penalty which may be reflected during the regulatory period. Pollution events in wastewater continue to be higher than the levels to which we

have committed and we are targeting further improvements over the final year of the regulatory period.

Net ODI penalties (for the third year of K6) valued at £0.8m, which apply in the current regulatory period, will be passed back to customers through a reduction to their bills in 2019/20.

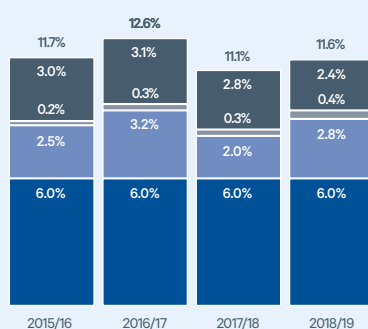
## WATERSHARE MECHANISM

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

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

This unique scheme identified £5.8m of customer benefits during the year, in addition to £6.1m identified in 2017/18. The independent WaterShare customer panel scrutinises our performance against the current business plan and reviews and challenges our recommendations on how any benefits should be shared with customers. These benefits will form the basis of the Watershare+ scheme, including the option for customers to receive Pennon shares in 2020.

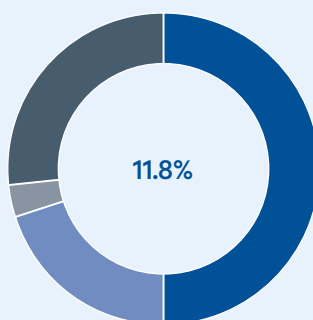
## WATERSHARE RoRE



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

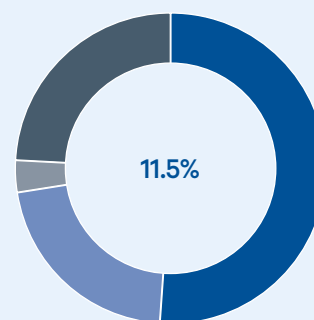
<sup>1</sup> Interest outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using the cumulative K6 forecast RPI of 2.8%; notional debt gearing of 62.5%, and the headline tax rate.

## OFWAT RoRE 2018/19



- Base
- Totex
- ODIs
- Financing<sup>2</sup>

## OFWAT RoRE 2015-19 CUMULATIVE



- Base
- Totex
- ODIs
- Financing<sup>2</sup>

<sup>2</sup> Interest outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using the Fisher equation and average RPI of 3.1% for 2018/19 (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 said in our Annual Performance Report (APR) 2017/18, we would also provide our performance in line with measures which will be used for the 2020-25 period (Shadow reporting). In this section we show performance in line with 2020-25 common commitments where definitions are clear (as reported in table 3S on page 154). The impact of changes to definitions is also shown.

### 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

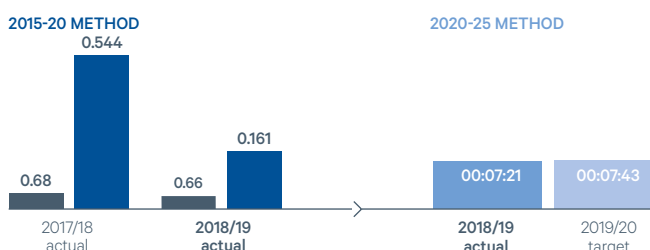
- BW (Bournemouth Water)
- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

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 154.

#### SUPPLY INTERRUPTIONS

Hours:mins:secs per property per year (2020-25)

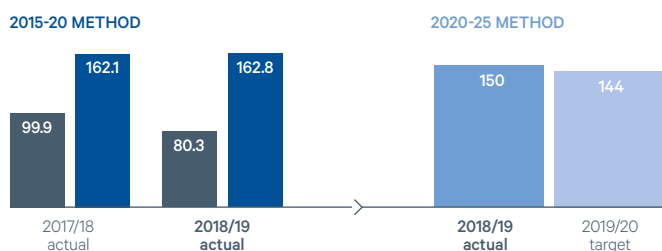


#### DEFINITIONS

- Supply interruptions are defined as 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
- For 2015-20 South West Water are measured by hours per property and Bournemouth Water are measured in minutes per property. For 2020-25 the measurement will be consistent as hours:mins:secs per property
- Compliance is measured against our adherence to nine components for which we are now fully compliant.

#### MAINS REPAIRS

Nr per 1,000km

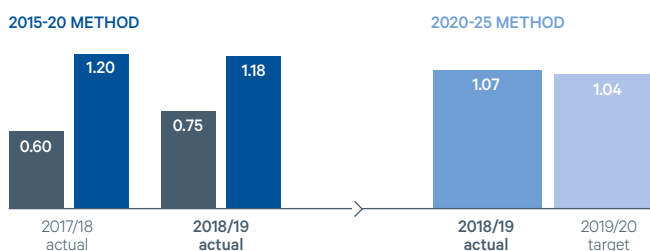


#### DEFINITIONS

- 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 the works from reaching its maximum production capacity if required
- Compliance is measured against our adherence to six components for which we are now 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)

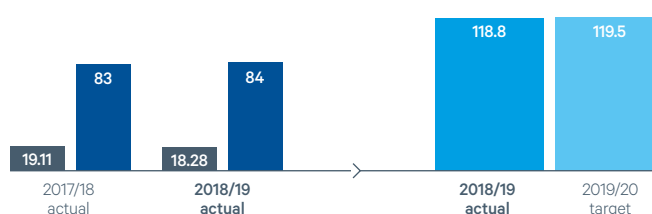
Our 2015-20 method reports our combined SWW and BW position. PCC is reported as a weighted average figure whereas Leakage is a combined total.

### LEAKAGE

MI/d

2015-20 METHOD

2020-25 METHOD



#### DEFINITIONS

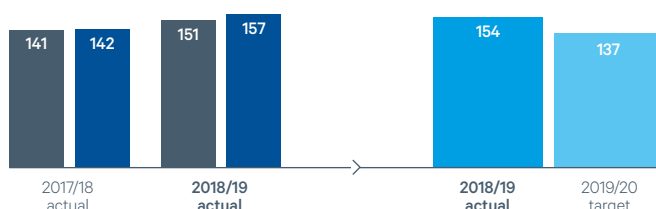
- Annual leakage is defined as the sum of losses across our distribution network, reported as the average daily leakage for 12 months, expressed in mega-litres per day (MI/d)
- This measure differs to our old leakage reporting in a number of technical components. Most notably, how we interpret our night flows
- Compliance is measured against our adherence to 16 components for which we forecast our full compliance in 2019/20
- Our annual performance is shown above, however we will be measured against our three year average performance from 2020.

### PER CAPITA CONSUMPTION (PCC)

Litres/person/day

2015-20 METHOD

2020-25 METHOD



#### 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 a RAG assessment is completed. In 2018/19 we are fully compliant for South West Water and we forecast full compliance for Bournemouth Water in 2019/20
- Our annual targets are shown above, however we will be measured against our three year average performance from 2020.



Our 2020-25 business plan was awarded fast track status. This year we are reporting our performance against common commitments which we will use during the period.

## 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

Percentage of households who have been contacted in the last two years to ensure they are receiving the right support

#### KEY

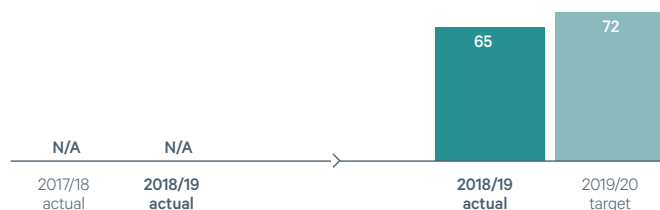
- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

#### PRIORITY SERVICES REGISTER (PSR) DATA CHECKED

%

2015-20 METHOD

2020-25 METHOD



#### DEFINITIONS

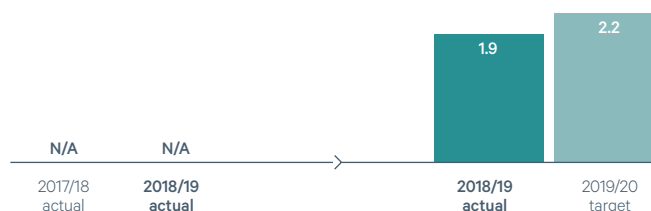
- The percentage of households who have been contacted in the last two years to ensure they are receiving the right support
- This is a new requirement for 2020-25.

#### PRIORITY SERVICES REGISTER (PSR) REACH

%

2015-20 METHOD

2020-25 METHOD



#### 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

%

2015-20 METHOD

2020-25 METHOD



#### 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

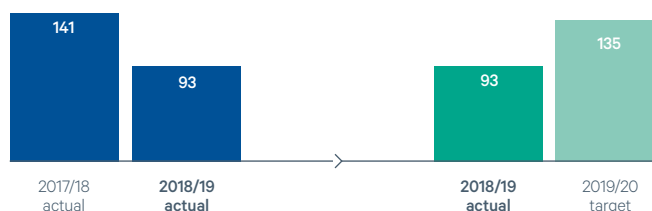
- SWW (South West Water)
- SWB (South West Water including Bournemouth Water)

## INTERNAL SEWER FLOODING INCIDENTS

Nr

2015-20 METHOD

2020-25 METHOD



#### DEFINITIONS

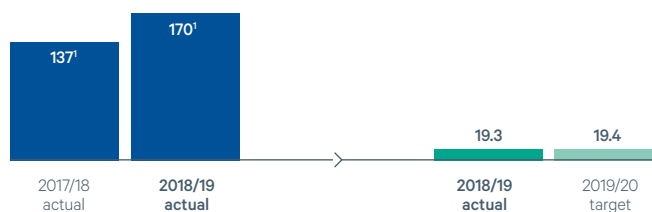
- When there has been an escape of sewage caused by the public network, homes and businesses can be affected
- Internal sewer flooding means sewage has entered homes and businesses, affected living spaces, basements and cellars
- This measure reports the number of internal flooding incidents per year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

## SEWER COLLAPSES

Nr per 1,000km (2020-25)

2015-20 METHOD

2020-25 METHOD



#### 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
- It differs from our previous definition of sewer collapses in that the new methodology includes incidents occurring on the transferred private sewer network as well
- Our methodology has been fully compliant since the introduction of this measure.

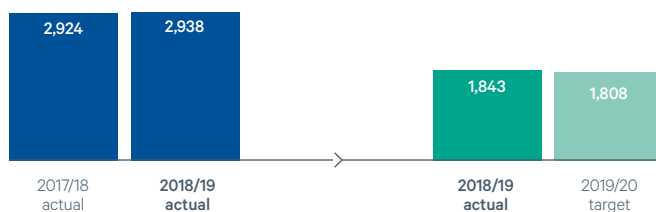
1 Measurement is reported as the total number.

## EXTERNAL SEWER FLOODING INCIDENTS

Nr

2015-20 METHOD

2020-25 METHOD



#### DEFINITIONS

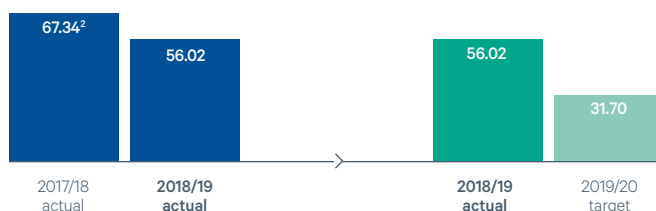
- External sewer flooding means sewage has entered the grounds or gardens of a building normally used for residential, public, community or business purposes
- The measure shows a reduction from our previous definition of external sewer flooding as we previously counted flooded areas that could in-directly 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 now fully compliant.

## RISK OF SEWER FLOODING IN A STORM

%

2015-20 METHOD

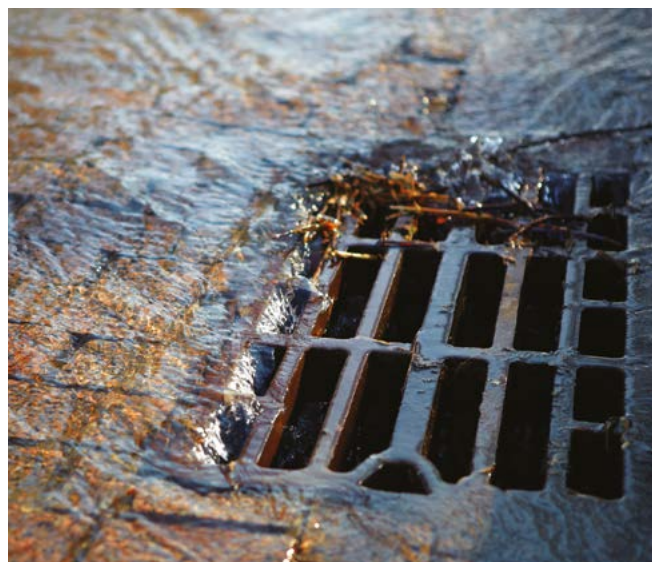
2020-25 METHOD



#### 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.

2 In order to be consistent in our application, the finalised methodology has been applied to 2017/18 which has resulted in our numbers being restated.



## Our emerging market

# 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

### MARKET 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.

Our dedicated teams actively participate in both industry and market operator led governance groups, code engagement groups and change consultations.

In November, South West Water hosted an event attended by retailers, wholesalers, Consumer Council for Water (CCWater) and Water retail market operator (MOSL) to share lessons learned from the 'Beast from the East' to improve handling of future large-scale events and the impact on non household customers.



### RETAILER ENGAGEMENT

It is important to us that we not only seek the views of our non-household customers but that we explore and understand retailer perceptions of the market, and how they want South West Water to support them now and in the future. To support our business planning for the Regulatory period 2020-25 we wanted to understand retailers' priorities for business planning so we commissioned face-to-face in-depth interviews with eight retailers active in our area. We understand that retailers are keen to see more collaboration with wholesalers for the mutual benefit of non-household customers.

We have a strong ethos of retail advocacy, which includes account reviews, a dedicated helpline for retailer queries and the production of bespoke operational and financial performance reports. We take a proactive approach to the identification and resolution of data issues impacting settlement.

For 2020/21, we are planning to launch a vacant property incentive scheme to reward high-performing retailers, and will publish Central Market Operating System (CMOS) codes alongside our non-household tariffs to support retailers operating across multiple regions.

Though we have implemented a dedicated retailer portal for all market related activities, we support MOSL's plans to introduce a system for market-wide bilateral communications.

### CREDIT ARRANGEMENT

In addition to offering all credit options available under the Market Code, South West Water has also published our 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.

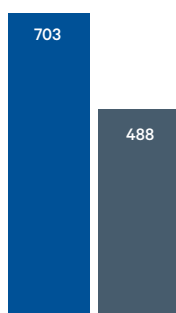
### MARKET PERFORMANCE

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 a 12% and 20% improvement in market MPS and OPS measures respectively since market opening.

A 31% reduction in complaints has been realised to date, and no trading partner disputes have been raised with South West Water.



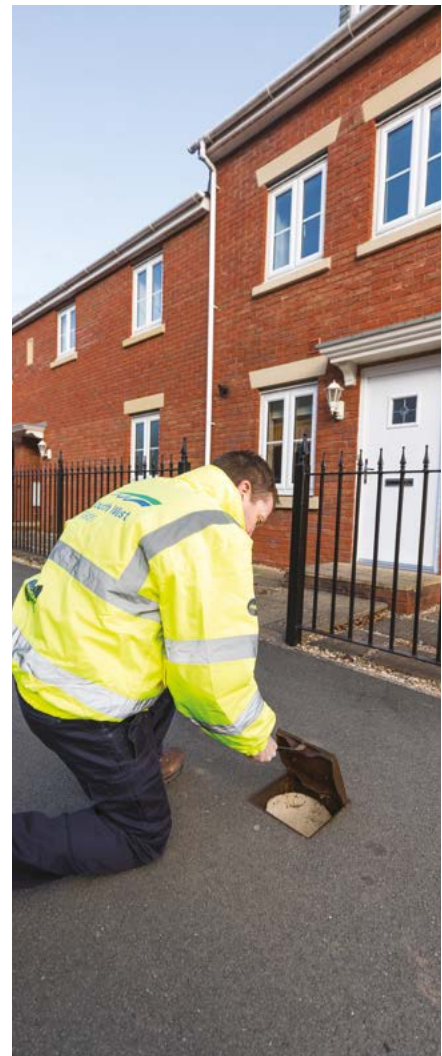
### COMPLAINTS RECEIVED (F05 Process)

- 2017/18 703
- 2018/19 488

### METER READING SERVICES

South West Water has offered meter reading services for non-household retailers in the market since 1 April 2017 and 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.







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.

## Developer services

Our customers have a choice of their service provider for developer activities. To make options clear we have introduced a dedicated self-lay area on our website, providing customers process flowcharts, design guidance, charging information and details on approved materials and construction arrangements.

Our literature makes clear the choice available to customers, from using a self-lay provider to South West Water to deliver services, allowing customers to make an informed choice from the beginning of the process.

We provide clear guidance on contestable and non-contestable activities. Our quotes also detail which elements are contestable.

Other initiatives include:

- Holding regular review meetings for self-lay providers
- Having a dedicated email for self-lay providers to contact us
- Providing a dedicated internal team to focus on the self-lay market
- Seeking independent advice on our self-lay arrangements and acting on recommendations made.

## NEW APPOINTMENTS & VARIATIONS (NAV)

South West Water has an active NAV in our area and we are anticipating further market activity. To support market development and ensure that the service NAVs receive from us effectively supports their requirements, we have/are:

- Developed and published NAV tariffs
- Raised awareness of the NAV market through targeted staff training
- Redesigning our website to facilitate easier navigation for NAVs
- Developing organisational processes that ensure NAV contacts are handled seamlessly.

## Water resources

To meet the future challenges of climate change and population growth, as a society we are going to need to think about how we use water resources differently. South West Water sees market based approaches as part of the toolkit for meeting these challenges. Over the last year:

- We have set up a dedicated website and service for promoting water resource opportunities
- Confirmed a new water transfer to Southern Water for delivery by 2027 to help alleviate water stress in the South East
- Started the development of a water trading platform with the Environment Agency as part of the West Country Water Resources Group
- We were one of only four companies to have our Bid Assessment Framework approved for our 2020-25 Business Plan with no corrective action
- We have engaged with Wessex Water's Entrade platform for developing market solutions to catchment management in the River Axe and Roadford reservoir catchments.

Looking ahead we are already planning an internal market for the pricing of water resources, rolling out the application of our Bid Assessment Framework to elements of our 2020-25 Business Plan on water efficiency delivery and developing the future access prices to give transparency for future market entry scenarios.

We are also commencing an InterReg funded project for the Otter Valley to look at long-term sustainable solutions. This will examine water trades within the catchment as possible solutions for competing needs.

## Bioresources

We are committed to actively participating in the new bioresources market from 2020. Over the last year as part of our preparation we have:

- Updated our bioresources market information on our dedicated web pages
- Delivered improved bioresources measurements to facilitate market approaches
- Provided 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 and in vermicomposting
  - Commercial companies offering services
  - Commercial requests for information to support market surveys and understanding of the opportunities.

As highlighted in our 2020-25 Business Plan we will be approaching the bioresources market to seek participants to support delivery, provide solutions and to identify business opportunities to guide our future approach and investment. We are accelerating our proposals and making initial approaches to the market during 2019/20.





# ESTABLISHED FRAMEWORK

## Introduction

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

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

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

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

Pennon Group plc has a Senior Independent Director (Gill Rider) available to shareholders and other stakeholders, and Non-Executive Director Neil Cooper, who 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.

Further information on the approach to Group and South West Water governance is included in pages 31 to 89 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 57 and 67.

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

## Board independence

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

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

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

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

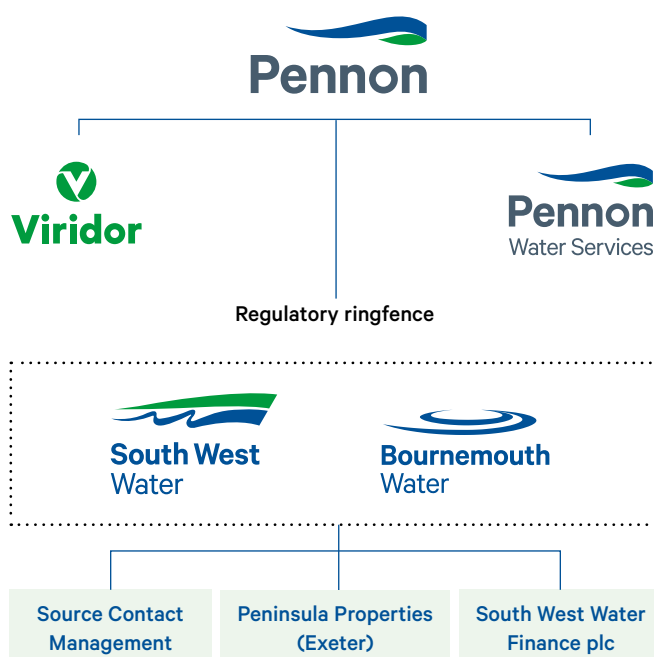
Matthew Taylor is also considered to be independent in character and judgement, however with Matthew having served nine years as a Non-Executive Director the Board has considered the factors as described in the UK Corporate Governance Code when deciding whether Matthew can still be credibly considered independent, because of the length of his tenure. The Board considers he is for the following reasons; however his tenure will only be extended until the AGM in July 2020.

Matthew is independent of executive management and he is free of any business or other relationships which could materially interfere with the exercise of independent judgement. He has no history of straying into "executive direction" and the experience of the Board is that he has at all times continued to provide an independent view of the Company that is removed from its day-to-day running and completely independent from Pennon. He has remained impartial and has no close connection with any member of the executive management of the Company.

There is no reason for the Board to believe that he will continue to be anything other than independent for any further period of service and as a member of the House of Lords, and an ex-MP he has the character not to be influenced unduly by external or personal pressures. He continues to bring wide experience and specialist knowledge given his position in Westminster and ties with the South West.

## South West Water's Group context

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



Note: this is a summary structure and includes only South West Water's trading subsidiaries. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 17, page 140).

## 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 continues to operate in the Bournemouth Water area (see page 97).

## South West Water's subsidiaries

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

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

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

## Viridor

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

## Pennon Water Services

Pennon Water Services provides retail services to non-household customers across England and Scotland.

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

## South West Water Limited Board of Directors

The South West Water Board of Directors at the end of the 2018/19 financial year comprised the Chairman (a Non-Executive Director), two Executive Directors, a Senior Independent Director (a Non-Executive Director), four further Independent Non-Executive Directors and the Pennon Group Chief Executive (a non independent Non-Executive Director).

Since May 2019, Chris Loughlin, the Pennon Group Chief Executive has temporarily 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.

The Board considers the Independent Non-Executive Directors to be independent in accordance with the UK Corporate Governance Code.

The Board believes its Directors have an appropriate range of skills and experience to oversee the business of the Company.

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 the Board's deliberations. Their biographies on pages 58 to 60 and the experience they hold (see chart on page 61) demonstrate collectively a broad range of industry, financial and other relevant experience.

On 1 September 2018 Iain Evans was appointed as a Non-Executive Director. He subsequently resigned as a Director on 27 March 2019, following a review of the South West Water Board structure with Ofwat.

# TRUSTED LEADERS

## SOUTH WEST WATER DIRECTORS →

### COMMITTEE MEMBERSHIP KEY



Chairman of the Committee



Member of the Committee

**A**

Audit Committee

**R**

Remuneration Committee

**N**

Nomination Committee

**S**

Sustainability Committee



**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 Penon Group plc.

He is also chairman of the Nomination Committee.

#### 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 five 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.



### 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 Non-Executive Director and chairman of the audit and assurance committee for the Cornwall and Isles of Scilly Local Enterprise Partnership.

She is also a member of the Water UK Finance Directors Forum and the Prince of Wales' Accounting for Sustainability's Finance Culture Project.



**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.

#### SKILLS AND EXPERIENCE

Matthew was MP for Truro and St Austell for 23 years from 1987, until he stood down at the 2010 general election. He has expertise in planning for sustainable communities.

#### EXTERNAL APPOINTMENTS

Lord Taylor of Goss Moor Chairs the St Austell Eco-Community Strategic Partnership Board. Matthew is also Non-Executive Director of Mayfield Market Towns Ltd., and Chair and Non-Executive Director of Bridgehall Real Estate Limited and Kensa Heat Pumps Limited.





(S)

## Jon Butterworth MBE

Non-Executive Director

### APPOINTMENT

Jon was appointed to the Board on 28 September 2017 and is also independent scrutineer of health and safety processes across the Group (including within South West Water) to help ensure that these are robust and effective.

### SKILLS AND EXPERIENCE

Jon has over 39 years' experience in the utility industry. He started his career in British Gas and subsequently became the Managing Director of North West Transco in 1999 having worked in many Construction, Asset and Operational roles as well as running the UK Gas Emergency service.

He has a wealth of knowledge in Utilities and has held numerous senior positions within the industry including National Operations Director and Global Director of Safety, Sustainability & Resilience within National Grid plc and currently leads its Global Transmission Businesses.

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

### EXTERNAL APPOINTMENTS

Jon is also the Chairman of CORGI, Ambassador of the HM Young Offenders Programme, Associate Member of Brooke/Woodlands Multi Academy Trust, Ambassador of Special Olympics Great Britain, Director & Chairman of the Finance Committee for the Gas Safety Trust and a Trustee of the National Gas Museums Trust.



(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.

### EXTERNAL APPOINTMENTS

Martin is an independent member of the Audit and Risk Assurance Committee of the Department for Work and Pensions (DWP), Governor and Audit Committee Chair of UWE Bristol and a Board member and Audit Committee. He is also a Board member and Chair of the Audit Committee of Companies House.



(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.

### 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.

### EXTERNAL APPOINTMENTS

Executive Director, Currencies Direct.



(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.

### SKILLS AND EXPERIENCE

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

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 a non-executive director of De La Rue Plc and chair of the council of the University of Southampton.

At Accenture she chaired the global corporate responsibility and Foundation giving programme and was instrumental in building sustainability objectives into Accenture's worldwide human capital strategies.

### EXTERNAL APPOINTMENTS

Gill currently holds non-executive directorships with Charles Taylor plc, where she is senior independent director, and Intertek Group plc. She is chairman of both their remuneration committees.

COMMITTEE  
MEMBERSHIP KEY

Chairman of the Committee



Member of the Committee

**A**

Audit Committee

**R**

Remuneration Committee

**N**

Nomination Committee

**S**

Sustainability Committee

SOUTH WEST WATER  
DIRECTORS CONTINUED**S**

## Chris Loughlin

Non-Independent  
Non-Executive Director

## 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, since when he has acted as a Non-Independent Non-Executive Director of South West Water. He is currently Interim Managing Director of South West Water.

## 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, a director of Water UK, and a director and trustee of Reall.

IN ATTENDANCE  
AT THE BOARD →

## Susan Davy

Pennon Group  
Chief Financial Officer

## 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.

**S**

## Iain Evans

Pennon Group  
Non-Executive Director

## SKILLS AND EXPERIENCE

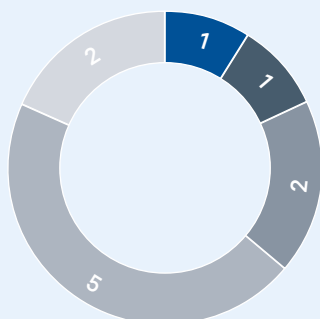
Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983 he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint 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 acts as an independent corporate strategy consultant.

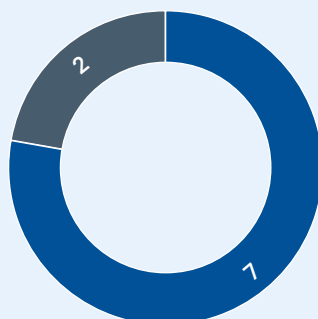


### BOARD COMPOSITION AT 31 MARCH 2019



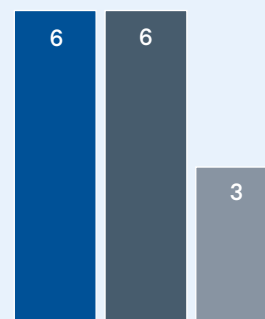
● Chairman (Non-Executive)	1
● Senior-Independent Director	1
● Executive Directors	2
● Other Non-Executive Directors	5
● Other permanent attendees	2

### BOARD DIVERSITY AT 31 MARCH 2019\*



● Male	7
● Female	2

### THE BOARD'S EXPERIENCE AT 31 MARCH 2019\*



● Governance	6
● Industry	6
● Finance	3

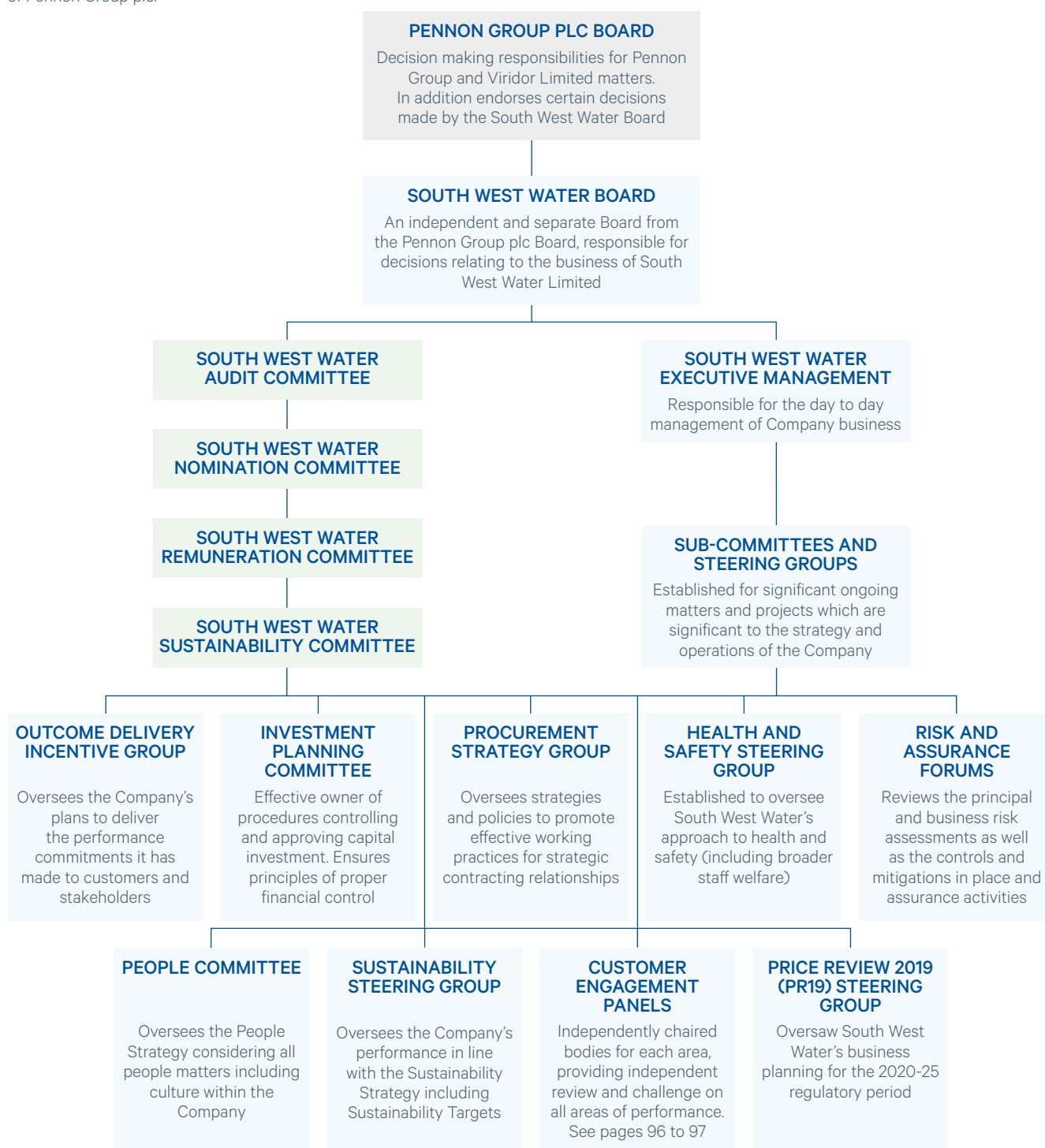
\* Includes Board members only. Certain Board members are recognised as having more than one category of experience.



## 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:



## 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 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.

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 business plan, annual budgets and certain decisions relating to financing.

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

## South West Water Board

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

The South West Water Board continues to operate as a separate independent board in accordance with its own schedule of matters reserved to ensure compliance with Ofwat's principles on board leadership, transparency and governance. As described in more detail on pages 52 to 58 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 three of the Pennon Non-Executive Directors as well as three Independent South West Water only Non-Executive Directors, convenes before each Pennon board meeting and considers South West Water strategy, performance and regulatory planning.

In addition to disclosures in this Annual Performance Report, further information on the operations of the Board and Committees are included on pages 52 to 92 of the Annual Report and Financial Statements.

## 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 pages 58 to 60. 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 (Interim)
- Ed Mitchell – Operations Director (Wastewater Services)
- Iain Vosper – Operations Director (Drinking Water Services)

### Group support functions in attendance

- Kevin Nankivell – Head of IT
- Helen Moss – Head of HR (South West Water)

### Other South West Water functions in attendance

- Guy Doble – Director of Resilience

The South West Water Executive also meet monthly formally with the Pennon Group Chief Executive Officer and Chief Financial Officer.

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 66 to 67.

## Governance continued

### 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 takes into account the impact 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 attended by both Executive and Non-Executive Directors. 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.

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

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

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

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

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

### Board membership and attendance

The Directors and their attendance at the eight scheduled meetings of the Board during 2018/19 are as follows:

BOARD MEMBERSHIP		ATTENDANCE
<b>Chairman</b>		
Sir John Parker <sup>1</sup>	Chairman	6/8
<b>Executive Directors</b>		
Dr Stephen Bird	Managing Director	8/8
Louise Rowe	Finance Director	8/8
<b>Senior Independent Director</b>		
Lord Matthew Taylor	Non-Executive Director	8/8
<b>Non-Executive Directors</b>		
Jon Butterworth	Non-Executive Director	8/8
Martin Hagen	Non-Executive Director	8/8
Neil Cooper	Non-Executive Director	8/8
Gill Rider	Non-Executive Director	8/8
Chris Loughlin	Non-Executive Director	8/8
Martin Angle <sup>2</sup>	Non-Executive Director	6/6
<b>Attendance</b>		
Susan Davy	Group Chief Financial Officer	8/8
Iain Evans <sup>3</sup>	Pennon Group Non-Executive Director	3/4

1 Sir John Parker missed two meetings during the year due to medical treatment. Lord Taylor chaired the meetings in his absence.

2 Martin Angle stepped down from the Board on 31 December 2018. Attendance includes only meetings during his appointment.

3 Attendance includes all meetings attended since 1 September 2018.

In addition to the eight 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 68-72

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 76

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 73-74

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 77

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 90 to 104.

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 pages 58 to 60. 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  
(Interim)

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 lead and having moved into the Regulatory team to support PR19 she was appointed as Head of Regulation and Customer Relations.

More recently she has been appointed as Regulatory Director – interim to support the conclusion of PR19 and support the business preparations to enable delivery in line with the business plan.



**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. He was permanently appointed South West Water's Operations Director (Wastewater Services) during the year.

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

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

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

#### OUTCOME DELIVERY INCENTIVE 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, chaired by South West Water's Managing Director, meets on a quarterly basis.

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

The group also reviews the effectiveness of 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 Managing Director, Finance Director and Regulatory Director and the Pennon Group Director of Risk and Assurance attend all forums, with other members of the Executive Management and Senior Management attending when relevant risks and assurance work is being considered.

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

#### SIGNIFICANT PROJECT GOVERNANCE

South West Water also establishes project steering groups for projects which are significant to the strategy and operations of the business and which require significant levels of oversight. During 2018/19 project steering groups were operating for the following key projects:

- **Price Review 2019 (PR19)** – This project steering group was established in 2016/17 to oversee South West Water's preparations, planning and delivery of its business plan for the 2020-25 regulatory period.
- **General Data Protection Regulation (GDPR)** – This project steering group was established to oversee preparations for and implementation of procedures in line with the GDPR, which became effective in May 2018.

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

Committee members – and the Board as a whole – share a common view of the importance of the Audit Committee as a foundation stone in the governance armoury of the Company and we welcome the opportunity to outline our key activities during the year.

The principal responsibilities of the Committee continue to be focused on three key areas:

- Ensuring the appropriateness of the Company's financial reporting; an activity that includes the 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 the calendar of business of the Committee, which is designed to allow sufficient time for their consideration whilst 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 level Risk and Assurance Forum structure continues to assess risk appetite and monitor key risks and their mitigation. The Group's executive risk management forum also oversees risk management, with the Audit Committee subsequently receiving detailed 'deep dive' presentations from senior management on areas impacting our principal risks. During the year, these covered a range of topics including South West Water projects, South West Water network resilience, impacts of a no-deal Brexit and business resilience and continuity. More detail on our risk management processes, principal risks and their associated mitigation can be found on pages 104 to 116.

Together with this risk-oriented activity, we continue to assess the Company's viability to the end of 2030, which we judge to be aligned with the longer-term nature of our business. Our viability statement is reported on pages 101 and 102.

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 70. 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.

Finally, during the year the Pennon Group 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 South West Water Audit Committee receives reports from the Pennon Group Director of Risk and Assurance.

## South West Water Audit Committee composition and meetings

Four 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	4/4
Lord Matthew Taylor	Non-Executive Director	4/4
Martin Hagen	Non-Executive Director	4/4
Gill Rider	Non-Executive Director	4/4
Martin Angle <sup>1</sup>	Non-Executive Director	3/3
Iain Evans <sup>2</sup>	Non-Executive Director	3/3

<sup>1</sup> Stepped down from the Board on 31 December 2018.

<sup>2</sup> Attendance includes only meetings since his appointment on 1 September 2018 and prior to his resignation on 27 March 2019.

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

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

In addition, the Board Chairman has an open invitation to attend the Committee meetings. In the last year he attended 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 has recent and relevant financial experience and has competence in accounting. The Board is also satisfied that the Committee, as a whole, has competence relevant to the sectors in which the Company operates. Details of each Director's significant current and prior appointments are set out on pages 58 to 60.

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 terms of reference of each of the Board's Committees are set out on the Company's website [www.southwestwater.co.uk](http://www.southwestwater.co.uk) and are also available from the Group Company Secretary upon request.

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:

<b>FINANCIAL REPORTING</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• Internal control and compliance</li> <li>• Review of internal audit reports on core systems and processes within South West Water, for example assurance work on data submissions for Ofwat as part of PR19 and financial controls.</li> </ul>
<b>EXTERNAL AUDITOR</b>	<ul style="list-style-type: none"> <li>• Considered the statutory financial auditor's report on its review of the annual results focusing on key findings</li> <li>• Assessed external auditor effectiveness in respect of the previous year's external audit process</li> <li>• Monitored the provision of non-audit services</li> <li>• Considered and approved the audit plan for the statutory financial auditor</li> <li>• Considered the statutory financial auditor's report on control themes and observations for the year ended 31 March 2018, which did not identify any significant deficiencies.</li> </ul> <p>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 (page 83 to 86).</p>
<b>RISK MANAGEMENT</b>	<ul style="list-style-type: none"> <li>• Reviewed the risk management framework and compliance with that framework during the year and after the year-end until the publication of the Company's Annual Report</li> <li>• Reviewed the assessment of the risks by the Executive Directors and considered risk appetite</li> <li>• Reviewed the Company's risk register and considered appropriate areas of focus and prioritisation for the audit work programme for the year</li> <li>• Management of information security across the Company in mitigating key IT risks</li> <li>• Received as part of the risk management review the annual report on any whistleblowing</li> <li>• Carried out regular 'deep dives' at Committee meetings on principal risk areas.</li> </ul>
<b>GOVERNANCE</b>	<ul style="list-style-type: none"> <li>• Discussed the results of the performance evaluation of the Committee</li> <li>• Reviewed new annual report disclosure requirements including the audit report</li> <li>• Considered and approved accounting policies used in the preparation of the financial statements</li> <li>• Confirmed compliance with South West Water's Code</li> <li>• Regularly held meetings with the external auditor and the Pennon Group Director of Risk and Assurance without members of management being present.</li> </ul>

## 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 2019 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 120 to 123. 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:

The areas of judgement for South West Water continue to be in respect of revenue recognition relating to income from measured water services and estimates of timing of receipt of unmeasured revenue, accounting for revenue. The Committee relied on South West Water's detailed assessment of water into supply and its track record of assessing an appropriate level of accrual at previous period 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. In addition, the Committee focused particularly on the implementation of IFRS 15 'Revenue' from 1 April 2018, with new judgements required in relation to the classification of revenue for the disaggregation note to the financial statements. The Committee reviewed and discussed management's paper which had been prepared in conjunction with expert advice and, after modest changes following that discussion, was satisfied the new disclosures were appropriate.

#### 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. 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 was reasonable. The Committee noted that the detailed approach applied by management was consistent with the requires of the IFRS 9 effective 1 April 2018 which requires the consideration of expected credit loss.

#### AREA OF FOCUS BY THE COMMITTEE: VALUATION OF PROPERTY, PLANT AND EQUIPMENT (PPE)

##### How the matter was addressed by the Committee:

Regular updates on progress of the capital investment schemes are received by the Board. The valuation of PPE has been applied consistently and benchmarking of asset lives is considered annually. At the year end the statutory financial auditor reported on the work it had performed, which together with the detailed analysis reported enabled the Committee to conclude that the management's assessment of the year-end position 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 separately, including forward-looking assessments of covenant compliance and funding levels under differing 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 better enable the Committee to 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 Company's liquidity over the 12-month period from the date of signing either the annual report or half-year results. The Committee has also considered a report from the Finance Director and Pennon Chief Financial Officer on the Company's financial viability over a longer appropriate period, which the Board considers to be up to 2030, in connection with the new UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board. 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 101 to 102.



## 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 Financial Reporting Council's ('FRC') Ethical Standard and ensure that our procedures and safeguards meet these standards.

The current external statutory financial auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process undertaken by Pennon Group plc and approval by shareholders at the Pennon Group plc 2014 AGM. Their reappointment was approved at the 2018 Pennon Group plc Annual General Meeting. Debbie O'Hanlon is the audit partner and has been in that role for five years since Ernst & Young's appointment, and consequently will be rotating off from the Pennon audit. EY have put forward appropriate replacements who have met with Committee members and management and have shadowed Debbie through her final year on the Pennon audit to ensure a smooth transition going into next year's audit. The Committee would like to thank Debbie for her valuable input to the Committee over the past five years.

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 Pennon and South West Water Audit Committees' annual performance evaluation. Further details of the performance evaluation are provided on page 69. No issues were raised during that review and the Committees concluded that the auditor was effective during the year. The Pennon Group Audit Committee is responsible for matters relating to appointment and re-appointment of external auditor. It considered that it is appropriate for the external auditor to be re-appointed and has made this recommendation to the Pennon Group Board. The Committee Chairman has also met privately with the statutory financial 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 36.9% of the audit fee, which is well within the Company's 70% non-audit fee limit. The percentage is higher than the previous year due to a limited amount of financial assurance work in respect of the Company's PR19 business plan being deemed necessary to be performed by the Company's statutory auditor. The majority of financial assurance work in respect of the business plan was performed by other specialists.

The Pennon Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the external auditor and the level of fees paid. The fees paid to the external auditor's firm for non-audit services and for audit services are set out in note 7 to the financial statements on page 134 of South West Water's Annual Report and Financial Statements.

## 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 level which makes a significant contribution to the ability of the Committee to deliver its responsibilities.

During the year, 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 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.

## The Audit Committee continued

### Internal audit continued

An external assessment of the internal function was last performed by KPMG LLP in 2016 and concluded that the Company's internal audit function conforms to 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.

### 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 100, 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 120 to 123.

In preparing and finalising the 2019 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 Executive Management. 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.

### 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 is 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

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

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

In January 2019, following Ofwat's assessment of the 2017/18 reporting cycle, South West Water was classified within the 'targeted assurance' category as it had been at the previous assessment.

South West Water will work to ensure continual improvement in its presentation of information which we report.

### South West Water's 2018/19 Summary Assurance Report

In July 2019, 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/report2019](http://www.southwestwater.co.uk/report2019).

# The Sustainability Committee

## The Sustainability Committee

We are pleased to report on the Sustainability Committee's activities during the year, and would particularly like to thank Gill Rider, who stood down as Sustainability Chair, for her work in the role up until December 2018. We are delighted to have retained Gill's experience and expertise on the Committee.

Our refreshed Sustainability Strategy ensures alignment and integration with the business, people and health and safety strategies. With clear objectives, targets and implementation plans identified throughout the organisation, we are confident that we will be able to ensure that our services bring resources to life, responsibly, for customers and communities now and in the long term.

The role of the Sustainability Committee is to oversee the delivery of strategic sustainability objectives and to ensure robust scrutiny of key aspects of environmental, social and governance performance. This year we have reviewed and approved refreshed strategic objectives, within an ESG framework, to add value and resilience to our business.

In the development of our new strategy we tested thoroughly the materiality of our areas of focus and consulted a cross-section of our key stakeholders. Group-wide three-year sustainability targets aligned with the new strategy have also been established as an effective way of monitoring performance against our objectives in the focus areas most materially relevant to the business and our stakeholders. Progress and performance will be clearly reported on going forward.

We have also 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 <sup>1</sup>	Chairman	3/3 <sup>1</sup>
Gill Rider	Non-Executive Director	4/4
Stephen Bird	Managing Director	4/4
Lord Matthew Taylor	Non-Executive Director	4/4
Jon Butterworth	Non-Executive Director	4/4
Chris Loughlin	Non-Executive Director	4/4
Martin Angle <sup>2</sup>	Non-Executive Director	4/4

<sup>1</sup> Iain Evans resigned from the South West Water Board on 27 March 2019. In order to ensure consistency with the Pennon Group Sustainability Committee, it was agreed that Iain Evans, formerly a director of the Company, would remain as Chairman of the SWW Sustainability Committee from 1 January 2019.

<sup>2</sup> Stepped down from the Board on 31 December 2018.

The Sustainability Committee assesses South West Water's performance against its approved sustainability targets that are set as part of the business planning process. Progress is reported to the Committee throughout the year. These targets are key to the successful delivery of South West Water's K6 Business Plan 2015-20.

The Committee ensures challenging targets are set and approved. As at 31 March 2019 South West Water had achieved 7 of its 12 targets for the year. Full details of the sustainability performance against these targets is shown on page 75.

During the year the Committee continued to work closely within the best practice framework developed by Business in the Community (BITC), a leading business-led charity promoting responsible business. South West Water was pleased to be part of the Pennon Group-wide participation as a pioneer company in trialling BITC's new Responsible Business Tracker during 2018 and will use the results to further inform its own community benefit programmes contributing to social capital gain.

The Sustainability Committee aims 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 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.



## The Sustainability Committee continued

### Sustainability Committee composition and meetings continued

During 2018/19, 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 and safety performance and the effectiveness of health and safety policies and procedures, including the continued rollout of the HomeSafe programme
- Environmental strategy and performance
- Performance in respect of customer service, satisfaction and engagement
- The Company's approach to community relations, community benefit and investment
- Performance against our workplace policy, within the Group-wide People Strategy, including South West Water's results in the latest Group-wide employee engagement survey
- Sustainable supply chain procurement and practices, including a new Supplier Code of Practice
- Sustainability reporting and disclosures for 2018/19 and the associated verifier's reports and recommendations
- Progress against the sustainability targets for 2018/19 and sustainability targets for 2020-23
- Materiality and refreshed sustainability strategy.

### 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 utilises water industry specialists in the audit of our non-financial data.

South West Water considers that Jacobs's 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 124 to 126.

### Benchmarking

The Pennon Group (including South West Water) is a constituent of the FTSE4Good Index and a number of other leading external ESG assessments. FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned 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 7, Annual Report and Financial Statements)
- Business model (page 12, Annual Report and Financial Statements)
- Strategic priorities (page 6, Annual Report and Financial Statements)
- Our people (pages 15 to 18, Annual Report and Financial Statements)
- Our operations (pages 19 to 23, Annual Report and Financial Statements)
- Sustainability targets (pages 84 and 85, 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 2018/19 is outlined in the following report. South West Water is making good progress against its targets and it aims to meet all targets by the end of the regulatory reporting period (2015-20).

## 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 2.0 days	NOT MET <sup>1</sup>
To achieve zero Category 1 and 2 pollution incidents which are our responsibility from waste water assets	NOT MET <sup>2</sup>
To increase the number of farms that have an agreed plan to benefit the environment and the acres of farmland under revised management plans and delivering environmental outcomes in line with our Business Plans	MET

- 1 The average time taken to fix significant leaks can be significantly impacted by weather conditions and this measure has risen in the year as a result of the extreme cold weather in March 2018 and the long, dry summer. We believe with the continued implementation of new technology, especially with a focus on leak detection in urban areas, South West Water remains on track to meet its 2020 target.
- 2 Regrettably South West Water failed to meet its target for zero Category 1 or 2 pollutions from wastewater assets, although the number reduced year on year. South West Water has implemented a targeted strategy to reduce the number of pollutions from wastewater assets such as using additional vehicles and equipment for sewer monitoring and cleaning. We remain committed to reaching our 2020 targets in respect of pollution incidents.

## 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 0.214 hours per property	MET
To increase the number of customers assisted through our water affordability initiatives in line with our Business Plans (to over 29,000)	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 79% as measured in our annual survey	NOT MET <sup>1</sup>
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 2018/19 to over 110	MET

- 1 Employee satisfaction, as measured by our annual employee survey rose slightly in the year to 77%, but did not reach the target of 79%. The survey however identified clear strengths in communication and involvement, trust, diversity and empowerment and accountability as well as strong health and safety results. It also revealed areas requiring further work. These include continuing to ensure our people understand our strategy and direction, as well as maintaining focus on embedding our values into everything we do, while recognising the contribution made by our employees.

## 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 80% of our customers being satisfied with the value for money of our services	NOT MET <sup>1</sup>
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	NOT MET <sup>2</sup>

- 1 Although customer satisfaction with value for money improved in the year to 62% (our highest ever level), it did not meet our challenging target of 80%. We continue to pledge to ensure that any rise in average household bills will remain less than inflation (as measured by the Retail Prices Index) over the 2015-20 period.
- 2 Although we did not meet our target in respect of greenhouse gases produced in water activities, we met our target for wastewater activities and met the targets on a combined basis. We remain committed to our 2020 targets in respect of greenhouse gas emissions.

## 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.

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 resulting in the following changes:
  - The extension of Sir John Parker's appointment as Chairman of South West Water from 1 August 2018 into his second term
  - The extension of Lord Matthew Taylor's appointment as a Non-Executive Director and Senior Independent Director of South West Water until the July 2020 AGM
  - The extension of Gill Rider as a Non-Executive Director of South West Water from 1 September 2018 into her third term. Gill was also appointed to the role of Remuneration Committee Chair from 1 January 2019
- 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 Group's gender pay disclosure for 2018 and ongoing action plan.

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. Hendrick & Struggles has no other connection to the Company.

## Nomination Committee composition and meetings

Director	Role	Attendance
Sir John Parker <sup>1</sup>	Chairman	2/3
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
Martin Angle <sup>2</sup>	Non-Executive Director	2/2
Iain Evans <sup>3</sup>	Non-Executive Director	2/2

<sup>1</sup> Sir John Parker unfortunately missed the May 2018 meeting due to medical treatment. Gill Rider chaired the May Committee meeting in Sir John's absence.

<sup>2</sup> Stepped down from the Board on 31 December 2018.

<sup>3</sup> Includes only meetings since his appointment on 1 September 2018 and prior to his resignation on 27 March 2019.

The Pennon Group Chief Executive (a member of the South West Water Board) also attends meetings when invited alongside the Group General Counsel & Company Secretary and the Pennon Group HR Director.

## 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.

As disclosed on page 61, the percentage of female representation within the Board and the Company's senior management team is below the target set. 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 17 of the Annual Report and Financial Statements.

In support of this aim, our Chairman is a member 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.

The Committee and the Board will continue to monitor and promote diversity across the Group 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.

Our 2018 employee survey told us that 89% of our employees believe that people within the Company are treated fairly regardless of race or ethnic origin. While we recognise this as good progress, we plan to further increase our focus on ethnic diversity in the coming year. We continue to strive to ensure people with disabilities are given all the encouragement and support necessary and that South West Water is seen as a welcoming and inclusive place to work in all respects.

Information regarding the gender breakdown of the workforce is provided on page 17 of the Annual Report and Financial Statements.



# The Remuneration Committee

## The Remuneration Committee

The Committee met four 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 Group
- Determining the remuneration and terms of engagement of the Chairman, the Executive Directors and senior executives of the Company.

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.

## Activities during the financial year

The Committee engaged in the following activities during the year:

- Completing the annual executive salary review and the annual review of the Chairman's fee
- Ensuring executive pay in South West Water is aligned to Ofwat's principles and responding to their request to ensure we set the appropriate stretch targets to meet customer delivery requirements as part of achieving fast-track status
- Reviewing drafts of the Directors' remuneration report and recommending it to the Board for approval for inclusion in the 2019 annual report
- Determining performance targets in respect of the Annual Incentive Bonus Plan for 2018/19
- Determining bonuses and deferred bonus awards pursuant to the Company's Annual Incentive Bonus Plan for 2017/18
- Approving the long-term incentive plan (LTIP) awards for the year
- Approving the release of the 2015 deferred bonus share awards
- Reviewing the outcome of the 2015 Performance and Co-Investment Plan awards
- Reviewing the results of the Committee's performance evaluation and instigating appropriate changes.

A comprehensive re-tendering process was also taken for the appointment of remuneration consultants for the Pennon and South West Water Remuneration Committees, resulting in the re-appointment of Deloitte, with a refreshed advisory team.

## The Committee's focus for 2019/20

- 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 and to create long-term value for shareholders
- Monitor on an ongoing basis the alignment of executive pay and benefits with the strategic direction of the Company to ensure these support long-term success of the Company and promote its values
- Review workforce remuneration, incentives and 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
- Reviewing and redrafting the remuneration policy in line with the three year cycle for approval at the Pennon Group AGM in 2020 and taking into consideration Ofwat's requirements.

## Remuneration Committee composition and meetings

There were four 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 <sup>1</sup>	Chairman	4/4
Neil Cooper	Non-Executive Director	4/4
Martin Hagen	Non-Executive Director	4/4
Martin Angle <sup>2</sup>	Non-Executive Director	3/3
Iain Evans <sup>3</sup>	Non-Executive Director	3/3

<sup>1</sup> Appointed as Committee Chairman on 1 January 2019.

<sup>2</sup> Stepped down from the Board, and as Chairman of the Committee on 31 December 2018.

<sup>3</sup> Includes only meetings since his appointment on 1 September 2018 and prior to his resignation on 27 March 2019 of the 2015-20 period.

Iain Evans was appointed to the Committee on 1 September 2018, following his appointment to the Board and Martin Angle stepped down from the Committee on 31 December 2018, following his resignation from the Board. All other Committee members served for the full year.

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.

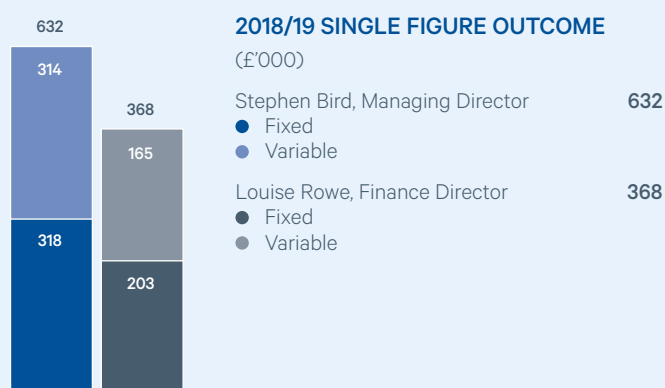
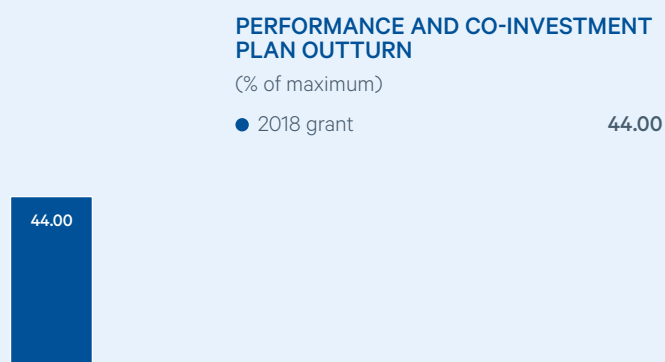
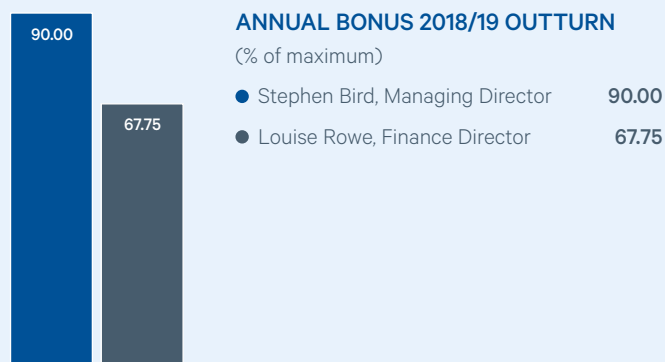
The Committee is advised by Deloitte, an independent remuneration consultant, to ensure remuneration is determined impartially. The Committee is also supported by the Group Director of Human Resources and the Group General Counsel and Company Secretary.

## Directors' remuneration at a glance

### 2018/19 – performance highlights and outcomes

#### GROUP PERFORMANCE

- Underlying Group profit before tax up 8.3%
- 2018/19 Group dividend per share up 6.4% to 41.06p per share
- EBITDA growth of 19.1% at Viridor supported by ERF performance
- South West Water business plan awarded fast-track status, the only water company to achieve this for two successive price reviews.



### 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.

#### Transparency

- Principles followed for 2017 policy review:

#### Clear disclosure of reasons for changes to policy

- Ensure a transparent, simple and equitable approach to pay
- Incentivise the delivery of sustainable long-term value to shareholders

#### Explanation of how changes take into account customer interests

- Support the underlying strategic priorities of operating safely, with an engaged workforce and focus on customer service
- Next policy review in 2020 – maintain commitment to transparent pay structures and clear disclosure of any changes.

## Link between Group strategy and remuneration

### LEADERSHIP IN UK WATER AND WASTE INFRASTRUCTURE

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

Focused on driving down overheads and operating in the most efficient way to minimise costs.

### DRIVING SUSTAINABLE GROWTH

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
<b>Long-term</b>					
Earnings per share	✓	✓	✓		✓
Dividend per share	✓	✓	✓		✓
Return on capital employed (RoCE)		✓	✓		✓
<b>Annual</b>					
Profit before tax (PBT)	✓	✓	✓	✓	
Return on regulated equity (RoRE)	✓	✓	✓	✓	
ODI net rewards	✓		✓	✓*	
<b>Sustainable business</b>					
Customer satisfaction with overall service	✓		✓	✓*	
Employee engagement	✓		✓	✓*	
Health and safety	✓		✓	✓*	
Carbon emissions	✓		✓	✓*	

\* Reflected in bonus operational and individual metrics.



# Annual statement from the Chairman of the Remuneration Committee

Gill Rider succeeded Martin Angle as Chair of the Committee in January 2019. On behalf of the Board, we would like to thank Martin for his significant contribution.

## Introduction

At the Pennon Group plc 2017 AGM, shareholders approved the revised remuneration policy with 98% of votes cast in favour of the resolution and this applies to South West Water Directors. The policy is available in full at [www.pennon-group.co.uk/about-us/governance-and-remuneration](http://www.pennon-group.co.uk/about-us/governance-and-remuneration) and a summary of the policy is provided on pages 81 to 82.

The Committee intends to conduct a comprehensive review of the remuneration policy during 2019/20. This will help us determine if the policy remains 'fit for purpose' and continues to align executives with the Company's strategic direction and long-term sustainable success. Our review will also focus on the recent changes to the UK Corporate Governance Code and on Ofwat's vision for water companies and regulatory framework going forward.

## Performance in 2018/19

### PERFORMANCE AGAINST BONUS TARGETS

A significant proportion of remuneration for the Executive Directors is delivered as variable pay that rewards for the achievement of sustainable strong performance. As illustrated on page 79, the metrics used for the bonus and long-term incentives are directly aligned with South West Water's strategy. The incentives reward for performance against financial, operating and customer based metrics that are important to our customers, the water industry regulator and wider stakeholders. Key achievements in the year included:

- The South West Water 2020-25 Business Plan receiving a fast track green light from Ofwat, the water industry regulator – the only company to have achieved fast-track status for two successive price reviews
- Strong performance in the water business, demonstrating service resilience through extreme weather conditions. Our focus on customers was demonstrated by delivery of our lowest ever supply interruptions and a record customer service score. South West Water is now ranked second in the industry for quality of service.

### INCENTIVE OUTCOMES

The bonus outturns for the Executive Directors for 2018/19 reflect the Company's strong achievements against financial, operational, customer and individual targets set at the start of the year.

The Committee considered the formulaic outcome and concluded that the bonus was a fair reflection of the strong performance achieved in the year. Further details of bonus targets, measures and performance are set out on page 83.

For the 2018/19 bonus, Executives were also asked to evidence how they demonstrated our new values (Trusted, Collaborative, Responsible, Progressive), in delivering individual objectives. This is in order to ensure that the values become a part of the leadership culture, with the intention of introducing this performance element to further levels of the organisation.

Half of the bonus earned is deferred into shares in Pennon Group plc which affirms the Executives' commitment to creating a long-term sustainable business.

Legacy awards granted under the Performance and Co-Investment Plan in 2016 will be eligible for vesting in 2019. This award was based on relative TSR performance against sector peers and the wider FTSE250 (excluding investment trusts). Although the performance assessment for this award will only be concluded after the finalisation of this report, the current expectation is that there will be partial vesting, currently estimated at c.44% for this award due to outperformance against sector peers.

## Key remuneration decisions

For 2019/20, salaries for Executive Directors were increased by 2.0%, which is slightly lower than the pay increase awarded to the wider employee population. No other changes are being made at this time to the pay arrangements for Executive Directors.

## Looking forward

In this year's report we have provided detail as to how we comply with the remuneration provisions within the new UK Corporate Governance Code which takes effect for 2019/20 and are well-placed for the adoption of the provisions.

Under the normal three-year renewal cycle, the Remuneration Policy will be presented to shareholders for approval at the Pennon Group plc 2020 AGM and will continue to apply to South West Water Directors. During the year we will therefore be undertaking a review of our current arrangements in light of our strategic priorities, evolving market and best practice as well as Ofwat's guidance and our commitments for South West Water remuneration post 2020. As part of this review we intend to consider our approach to pensions and post-employment shareholding guidelines in response to the new Code.

The Remuneration Committee has sought to take a measured and responsible approach to executive pay, with a close focus on the strategic priorities of the business and the interests of wider stakeholders. We hope that this approach is clear in our Remuneration Report.

# Directors' remuneration policy

## Introduction

The current Directors' remuneration policy was approved in July 2017.

The Committee's intention is to seek approval for the Company's remuneration policy at the end of the usual three-year cycle, in accordance with section 439A of the Companies Act 2006. Unless the Directors wish to amend the remuneration policy in the meantime, it will be submitted for approval in 2020, following a review to be carried out by the Committee in 2019/20.

The remuneration policy tables for Executive and Non-Executive Directors are set out below for information. The policy is displayed in its entirety on the South West Water website and is also available upon request from the Group Company Secretary.

## Summary of Directors' Remuneration Policy and Implementation in 2019/20

ELEMENT	OPERATION	IMPLEMENTATION IN 2019/20
<b>Base salary</b>		
Set at a competitive level to attract and retain high calibre people to meet the Company's strategic objectives in an increasingly complex business environment.	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.	Salaries for 2019/20 were increased by 2%, which was lower than increases for all employees: Louise Rowe: £166,464
<b>Benefits</b>		
Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.	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.	No changes.
<b>Annual bonus</b>		
Incentivises the achievement of key performance objectives aligned to the strategy of the Company.	The maximum bonus potential for each Director is 100% of base salary.  A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred.  Malus and clawback provisions apply.	No changes.  Maximum opportunity of 75% of salary, with deferral of 50% of any bonus into shares for three years.
<b>Long-term incentive plan (LTIP)</b>		
Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value to shareholders.	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. 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.  The maximum annual award is 80% of base salary.  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.	No changes.  Maximum award of 80% of salary.

## Directors' remuneration policy continued

ELEMENT	OPERATION	IMPLEMENTATION IN 2019/20
<b>Shareholding requirements</b>		
Create alignment between executives and shareholders and promote long-term stewardship.	100% of salary.	No change.
<b>Pension</b>		
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	The maximum annual pension contribution or cash allowance is 15% of salary.	<p>No changes.</p> <p>Current benefit levels as agreed in prior years are: £16,000 for Louise Rowe.</p> <p>In light of the updated UK Corporate Governance Code, the Remuneration Committee will be expecting to reduce the pension benefits for any future Board appointment to reflect pensions across the wider employee population.</p>
<b>All-employee share plans</b>		
Align the interests of all employees with Pennon Group plc share performance.	<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>	No changes.
<b>Non-Executive Director fee policy</b>		
Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.	<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>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). The Chairman's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of his duties.</p>	2019/20 fee policy is based on the attendance and responsibility of each Non-Executive Director.



# Annual report on remuneration

## Implementation of the remuneration policy for 2019/20 – further details on performance metrics

### ANNUAL BONUS

For 2019/20, the annual bonus will be based on the following performance measures:

<b>Group financial measures (45%)</b>	37.5% profit before taxation (PBT) 7.5% Return on Regulatory Equity (RoRE)
<b>Customer and operational measures (15%)</b>	These measures will be quantitative and measurable, and are key to meeting the needs of our customers, our regulator and wider stakeholders.  Metrics will include: <ul style="list-style-type: none"> <li>• Customer service score</li> <li>• Bathing water failures</li> <li>• Leakage</li> <li>• Wastewater pollution incidents</li> <li>• Interruptions to supply</li> <li>• Water and wastewater asset reliability.</li> </ul>
<b>Individual objectives (15%)</b>	Individual objectives include goals relating to: <ul style="list-style-type: none"> <li>• Health and safety</li> <li>• Employee engagement</li> <li>• Execution of the PR19 Business Plan</li> <li>• Development of strategy.</li> </ul> <p>Executives will be asked to evidence how they demonstrated our values (trusted, collaborative, responsible, progressive), in delivering individual objectives. This is in order to ensure that the values become part of the leadership culture, with the intention of introducing this performance element to further levels of the organisation. For bonuses from 2014/15 both malus and clawback apply as described in the remuneration policy report.</p>

The detail of the annual bonus targets for 2019/20 are closely aligned to the strategy and are therefore considered to be commercially sensitive. However, the Company intends to provide retrospective disclosure of targets in next year's remuneration report.

For 2019/20, performance measures will continue to be EPS growth, a sustainable dividend measure and RoCE, with targets set in the table below. The LTIP award will be subject to an 'underpin' relating to overall Group performance including consideration of environmental, social and governance factors and safety performance, as well as financial performance.

	Threshold (25% of element)	Maximum (100% of element)
Pennon Group EPS growth (40%)	6% p.a.	10% p.a.
Sustainable dividends (40%)	2.6x	3.6x
RoCE* (20%)	8%	10%
Straight line vesting between threshold and maximum		

\* RoCE is defined as: (underlying operating profit + joint venture profit after tax + interest receivable) divided by capital employed (debt + equity invested including hybrid).

The sustainable dividend is based on EBITDA cover. This element is subject to two underpins:

- Achievement of a gateway dividend growth target of RPI+4% per annum; and
- The Board must also be satisfied with the level of EPS dividend cover. EBITDA dividend cover will be based on adjusted EBITDA calculated as (underlying EBITDA + share of JV dividends & interest receivable + IFRIC12 interest receivable).

For the purpose of the calculation, dividend cover would be based on the policy of 4% p.a. above RPI.

### Discretion

In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that they will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance). The Committee will disclose the use of any such discretion.

## Annual report on remuneration continued

### 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:

<b>Base salary</b>	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 Executive Directors in 2019 was 2%, compared with general increases of 2%.
<b>Pension and benefits</b>	All employees of the Group are entitled to pension provision, including life assurance. Certain benefits are generally available only to more senior employees at management level and above. The Company as part of the Pennon Group also encourages share ownership in Pennon Group plc among its employees by operating an 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.
<b>Variable remuneration</b>	All South West Water employees 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:

<b>Pay dashboard</b>	We have established a pay dashboard to help support the Committee in reviewing workforce remuneration and related policies: <ul style="list-style-type: none"> <li>• The dashboard provides an overview of pay arrangements across the business and provides key statistics on pay in different areas of the business</li> <li>• The dashboard covers information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas of the business</li> <li>• The Committee intends to keep the content of the dashboard under review to ensure that it continues to provide suitable information for the Committee.</li> </ul>
<b>Gender pay gap</b>	From April 2018 South West Water Gender Pay Gap data has been included within a Pennon Group-wide publication: <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul>

### Employee engagement

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 Voice and 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 Group-wide call with the Executive 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 Group and motivate and engage our employees.

## Non-Executive Director fees

Non-Executive Director fees for 2019/20 are set out below. They include a 2% increase for the Non-Executive Directors.

Director	Fees £000
Chairman, Sir John Parker	138
Lord Matthew Taylor	61
Jon Butterworth	57
Martin Hagen	57
Neil Cooper	35
Gill Rider	39
Chris Loughlin	269

The Chairman, Sir John Parker, Neil Cooper and Gill Rider's fees and Chris Loughlin's salary 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/salary charges for 2019/20.

## Single total figure of remuneration table (audited information)

	Base salary/fees (£000)		Benefits <sup>1</sup> (including Sharesave) (£000)		Annual bonus (cash bonus and deferred shares) (£000)		Long-term incentive plan (LTIP) <sup>6</sup> (£000)		Pension <sup>7</sup> (£000)		Total remuneration (£000)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
<b>Executive Directors</b>												
Stephen Bird	248	244	26	21	236	155	109	–	44	44	663	493
Louise Rowe	163	160	16	15	119	104	57	–	24	24	379	303
<b>Non-Executive Directors</b>												
Sir John Parker, Chairman <sup>2</sup>	135	135	–	–	–	–	–	–	–	–	135	135
Lord Matthew Taylor, Senior Independent Director	60	55	–	–	–	–	–	–	–	–	60	55
Jon Butterworth <sup>3</sup>	56	28	–	–	–	–	–	–	–	–	56	28
Martin Hagen	56	55	–	–	–	–	–	–	–	–	56	55
Martin Angle <sup>2,4</sup>	26	34	–	–	–	–	–	–	–	–	26	34
Neil Cooper <sup>2</sup>	35	33	–	–	–	–	–	–	–	–	35	33
Gill Rider <sup>2</sup>	39	37	–	–	–	–	–	–	–	–	39	37
Iain Evans <sup>2,5</sup>	20	–	–	–	–	–	–	–	–	–	20	–
Chris Loughlin <sup>2</sup>	264	259	17	15	240	225	104	–	79	78	704	577

1 Benefits comprise a car allowance and medical insurance.

2 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 98 of the Pennon Group plc Annual Report and Accounts 2019.

3 Jon Butterworth joined the South West Water Board on 28 September 2018.

4 Retired from the Board on 31 December 2018.

5 Iain Evans was appointed to the Board on 1 September 2018 and resigned on 27 March 2019.

6 Based on an estimated 44% vesting as referred to on page 88.

7 See page 89 for further information.

## Annual report on remuneration continued

### Annual bonus outturn for 2018/19 (audited information)

The performance targets set and the performance achieved in respect of the annual bonus for 2018/19 in respect of each Executive Director is set out below.

#### Stephen Bird

Measure	Threshold	Target	Maximum	Actual outturn	Bonus outturn
<b>Group financial measures – 60% weighting</b>					
Underlying profit before tax (50% weighting)	£262.1m	£267.4m	£280.8m	£280.2m	49%
RORE (10% weighting)	8%	9%	11%	11.6%	10%
<b>Customer and operational measures – 20% weighting</b>					
<b>Water metrics</b>		Target	Actual outturn	Target achieved	Bonus outturn
Service Incentive Mechanism (SIM)		85/87	88/88	Yes	
Bathing water quality		<5 beach fails	0	Yes	
Leakage		81ML/d	84ML/d	No	
<b>Wastewater pollution incidents</b>					
Wastewater pollution incidents (Cat 1-2)		2	2	No	14%
Wastewater pollution incidents (Cat 3-4)		180	248		
Duration of interruptions to supply		0.214hr/prop	0.161hr/prop	Yes	
Wastewater and waste asset reliability		Stable	Stable	Yes	
<b>Personal objectives – 20% weighting</b>					
Personal objectives for 2018/19 were aligned to the delivery of strategic objectives, including:					
<ul style="list-style-type: none"> <li>the personal leadership and embedding of the Group's health and safety programme HomeSafe</li> <li>continued momentum around a number of Board priorities including the PR19 programme.</li> </ul>					17%



## Annual bonus outturn for 2018/19 (audited information) continued

Louise Rowe

Measure	Threshold	Target	Maximum	Actual outturn	Bonus outturn
<b>Group financial measures – 45% weighting</b>					
Underlying profit before tax (37.5% weighting)	£262.1m	£267.4m	£280.8m	£280.2m	36.75%
RORE (7.5% weighting)	8%	9%	11%	11.6%	7.5%

### Customer and operational measures – 15% weighting

Water metrics	Target	Actual outturn	Target achieved	Bonus outturn
Service Incentive Mechanism (SIM)	85/87	88/88	Yes	
Bathing water quality	<5 beach fails	0	Yes	
Leakage	81MI/d	84MI/d	No	
<b>Wastewater pollution incidents</b>				
Wastewater pollution incidents (Cat 1-2)	2	2	No	10.5%
Wastewater pollution incidents (Cat 3-4)	180	248		
Duration of interruptions to supply	0.214hr/prop	0.161hr/prop	Yes	
Wastewater and waste asset reliability	Stable	Stable	Yes	

### Personal objectives – 15% weighting

Personal objectives for 2018/19 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.

### Summary of bonus outcome

Measure	Weighting	Managing Director outturn	Finance Director outturn
Group financial measures	60% / 45%	59%	44.25%
Customer and operational measures	20% / 15%	14%	10.5%
Individual objectives	20% / 15%	17%	13%
<b>Total outturn</b>	<b>100% / 75%</b>	<b>90%</b>	<b>67.75%</b>

A discretionary amount of 5% of salary was also awarded for the successful outcome of the PR19 Business Plan assessment.

Overview

Operational performance

Regulatory reporting

## Annual report on remuneration continued

### Long-term incentive plan – Performance & co-investment plan outturn for 2018/19

The awards in the single figure table relate to share awards granted on 1 July 2016, which are due to vest on 1 July 2019. These awards were granted under the legacy incentive plan which operated prior to 2017.

The 2016 share awards were subject to the satisfaction of the TSR based performance conditions. These conditions were set at the time that the awards were granted. The calculation for this award requires averaging TSR performance over the first three months of the performance period and comparing it to the average over the three months following the end of the performance period (1 April 2019 to 30 June 2019). In light of this timeframe, the outturn described in this report is based on an estimate based on TSR up to 20 May 2019. The final vesting outcome will be confirmed in next year's Remuneration Report.

	Threshold (30% of maximum vests)	Maximum (100% of maximum vests)	Forecasted achievement	Forecasted vesting
Comparator Index (50% of award)	Equal to index	15% above the index	Out-performance of index 12.4%	44%
FTSE 250 (excluding investment trusts) (50% of award)	Above 50th percentile	At or above 75th percentile	Below median	0%
<b>Total</b>				<b>44%</b>

Straight line vesting between points. For below threshold performance, 0% vests in respect of that performance condition. Comparator index comprises: National Grid plc, Sécché Environnement, Severn Trent, Shanks Group, Suez Environnement, and Veolia Environnement.

The calculation of TSR performance was undertaken by Deloitte LLP for the Committee. Vesting of an award is also subject to the 'underpin' described in the remuneration policy, which the Committee has determined to the date of this report would be satisfied, if any award was to vest.

If awards were to vest, they would be subject to a two-year holding period during which clawback may be applied where the Committee considers it appropriate in certain circumstances. The holding period ends on 30 June 2021.

## Retirement benefits and entitlements (audited information)

Details of Directors' pension entitlements and pension related benefits during the year are as follows:

	Value of defined benefit pension <sup>1</sup> (£000)	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)	Accrued pension at 31 March 2019 (£000)
Stephen Bird	(5)	6	43	44	60 (14 May 2018)	83
Louise Rowe <sup>2</sup>	–	15	10	25	65 (15 January 2047)	–

<sup>1</sup> The value of the defined benefit pension accrued over the period comprises the total pension input amount (which has been calculated in line with regulatory requirements) less the pension contributions paid by the Director.

<sup>2</sup> 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.

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. Currently, no Executive Directors hold outside company appointments other than with industry bodies or governmental or quasi-governmental agencies.

## Date 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	Expiry date of service contract
Louise Rowe*	1 February 2015	At age 65 (15 January 2047)

\* The Executive Directors' service contracts 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 March 2021
Lord Matthew Taylor	1 March 2010	31 July 2020
Jon Butterworth	28 September 2017	28 September 2020
Martin Hagen	1 September 2010	23 July 2020
Neil Cooper	1 April 2016	30 August 2020
Gill Rider	1 April 2016	30 August 2021
Chris Loughlin	1 January 2006	12 months' notice period

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 and for the Chairman's letter of appointment to contain a 12 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.

## Share award and shareholding disclosures

Details of Directors' shareholdings are included in South West Water's Annual Report and Financial Statements on pages 102 to 103.

# 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/report2019](http://www.southwestwater.co.uk/report2019)) from the end of July 2019 which provides an update in respect of all significant areas for assurance identified in our Assurance Plan (available at [www.southwestwater.co.uk/assuranceplan2019](http://www.southwestwater.co.uk/assuranceplan2019)).



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 2019.

Visit: [www.southwestwater.co.uk/report2019](http://www.southwestwater.co.uk/report2019)

## 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.

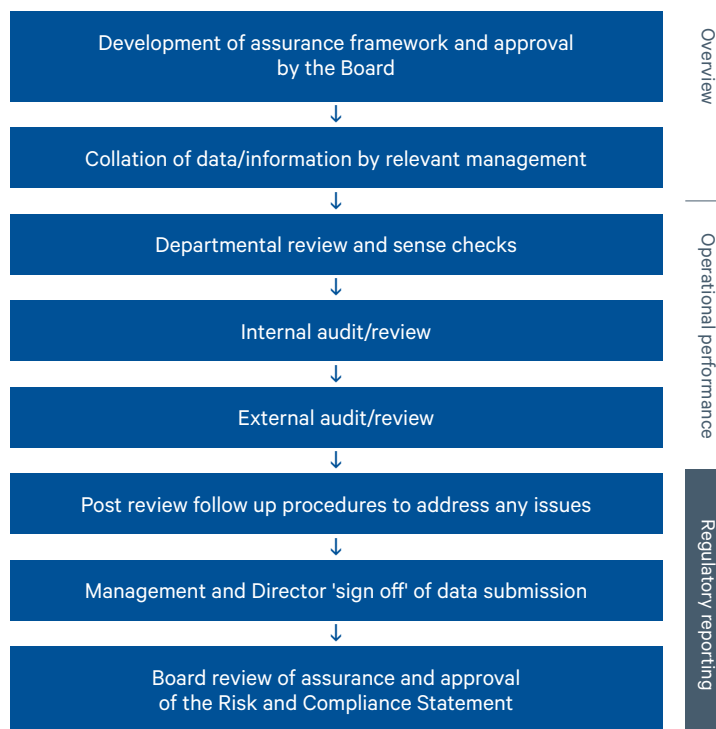
External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the PR19 business plan, tariffs/charges submissions and Annual Performance Report and Regulatory Reporting). The allocation of assurance work between external providers (including 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 confirm in their opinion that assurance provision, governance and internal systems of control have been sufficient.

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



## Ofwat's company monitoring framework

### WHAT IS THE COMPANY MONITORING FRAMEWORK?

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

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

### THE JANUARY 2019 ASSESSMENT

In January 2019, following Ofwat's assessment of the 2017/18 reporting cycle, South West Water was classified within the 'targeted assurance' as it had been at the November 2017 assessment.

We were disappointed with this classification and aim to be classified within the 'self assurance' category, with discretion to deliver self assurance in relation to any additional assurance arrangements beyond base requirements.

Ofwat however within the assessment stated it did not agree with the treatment excluding certain supply interruptions during the freeze-thaw incident, which had been noted in the technical auditor's report. As a result this has now been restated within our historical ODI reporting. There is no similar exclusion made in 2018/19 and we continue to view it important to provide comprehensive summaries of external assurance performed by both financial and technical auditors (see pages 120 to 126).

In all other categories of assessment, South West Water met expectations. South West Water will work to identify possible improvements in all categories.

## RISKS, STRENGTHS AND WEAKNESSES COMMITMENTS

In line with the Company Monitoring Framework, and following customer and other stakeholder engagement, in November 2018, the Company published its Risks, Strengths and Weaknesses Statement for 2018/19 relating to the information it provides.

This statement drove the assurance planning process for annual reporting and other information, which resulted in the Assurance Plan being consulted upon and published.

It also identified a number of actions we have committed to in respect of the data we publish. These were in the following areas:

- Reporting of ODI performance to customers
- Reporting of the WaterShare performance scorecard
- Customer understanding of performance reported against consistency measure methodologies
- Customer understanding of information provided
- Our websites
- Communication with customers during extreme events
- Climate change.

Some of these actions have resulted in improvements to the Annual Performance Report and Regulatory Reporting. An update will be provided within the next Risks, Strengths and Weaknesses exercise in autumn 2019 and where applicable within the Summary Assurance Report published at the end of July 2019.



South West Water's full Summary Assurance Report will be published at the end of July 2019.

Visit:

[www.southwestwater.co.uk/report2019](http://www.southwestwater.co.uk/report2019)

## 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 94 to 95.

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 120 to 123. 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.

Two new tables have been included within regulatory reporting for 2018/19, being:

- 1F 'Financial flows' – which is included within the scope of EY's regulatory audit opinion
- 2K 'New connections reconciliation' – which we have included within the scope of EY's financial agreed upon procedures.

### 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 120 to 123. Jacobs' report is shown on pages 124 to 126. There are no additional matters reported to management by EY or by Jacobs which would indicate weaknesses or deficiencies in the process of collating, validating or reporting of information contained within the Annual Performance Report and Regulatory Reporting.

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

SECTION 1		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
<b>1A</b>	Income Statement	EY	Regulatory Audit Opinion	Pages 128 to 129	Pages 120 to 123
<b>1B</b>	Statement of comprehensive income	EY	Regulatory Audit Opinion	Page 129	Pages 120 to 123
<b>1C</b>	Statement of financial position	EY	Regulatory Audit Opinion	Pages 130 to 131	Pages 120 to 123
<b>1D</b>	Statement of cash flows	EY	Regulatory Audit Opinion	Page 132	Pages 120 to 123
<b>1E</b>	Net debt analysis at 31 March 2018	EY	Regulatory Audit Opinion	Page 133	Pages 120 to 123
<b>1F</b>	Cumulative Financial Flows for the 3 years ended 31 March 2019	EY	Regulatory Audit Opinion	Pages 134 to 135	Pages 120 to 123

SECTION 2		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
<b>2A</b>	Segmental income statement	EY	Regulatory Audit Opinion	Page 136	Pages 120 to 123
<b>2B</b>	Totex analysis – wholesale water and wastewater	EY	Regulatory Audit Opinion	Page 137	Pages 120 to 123
<b>2C</b>	Operating cost analysis – retail	EY	Regulatory Audit Opinion	Page 138	Pages 120 to 123
<b>2D</b>	Historical cost analysis of fixed assets wholesale and retail	EY	Regulatory Audit Opinion	Page 139	Pages 120 to 123
<b>2E</b>	Analysis of capital contributions and land sales – wholesale	EY	Regulatory Audit Opinion	Pages 140 to 141	Pages 120 to 123
<b>2F</b>	Household – revenues by customer type <sup>1</sup>	EY	Regulatory Audit Opinion	Page 141	Pages 120 to 123
<b>2G</b>	Non-household water – revenues by customer type	EY	Regulatory Audit Opinion	Page 142	Pages 120 to 123
<b>2H</b>	Non-household wastewater – revenues by customer type	EY	Regulatory Audit Opinion	Page 143	Pages 120 to 123
<b>2I</b>	Revenue analysis & wholesale control reconciliation <sup>1</sup>	EY	Regulatory Audit Opinion	Pages 144 to 146	Pages 120 to 123
<b>2J</b>	Infrastructure network reinforcement costs	EY	Regulatory Audit Opinion	Page 147	Pages 120 to 123
<b>2K</b>	New connections reconciliation	EY	Regulatory Audit Opinion	Page 147	Pages 120 to 123

SECTION 3		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
<b>3A</b>	Outcome performance table <sup>1</sup>	Jacobs <sup>4</sup>	Technical audit – agreed upon procedures	Pages 148 to 151	
<b>3B</b>	Sub-measure performance table <sup>1</sup>	Jacobs	Technical audit – agreed upon procedures	Page 152	
<b>3C</b>	AIM table <sup>2</sup>	Jacobs <sup>2</sup>	N/a	Page 152	
<b>3D</b>	SIM table <sup>1</sup>	Jacobs	Technical audit – agreed upon procedures	Page 153	
<b>3S</b>	Shadow reporting tables <sup>3</sup>	Jacobs	Technical audit – agreed upon procedures	Pages 154 to 155	



SECTION 4		EXTERNAL ASSURER	TYPE OF ASSURANCE	TABLE REFERENCE	EXTERNAL ASSURANCE SUMMARY
4A	Non-financial information <sup>1</sup>	Jacobs	Technical audit – agreed upon procedures	Page 155	Pages 124 to 126
4B	Wholesale totex analysis	EY	Financial agreed upon procedures	Page 156	Page 127
4C	Forecast impact of performance on RCV	EY	Financial agreed upon procedures	Page 157	Page 127
4D	Wholesale totex analysis – water	EY <sup>5</sup>	Financial agreed upon procedures	Pages 158 to 159	Page 127
4E	Wholesale totex analysis – wastewater	EY <sup>5</sup>	Financial agreed upon procedures	Pages 160 to 161	Page 127
4F	Operating cost analysis – household retail	EY	Financial agreed upon procedures	Page 162	Page 127
4G	Wholesale current cost financial performance	EY	Financial agreed upon procedures	Page 163	Page 127
4H	Financial metrics	EY	Financial agreed upon procedures	Pages 164 to 165	Page 127
4I	Financial derivatives	EY	Financial agreed upon procedures	Page 165	Page 127
4J – 4W	Cost assessment tables	EY Jacobs	Financial agreed upon procedures (excl 4P-4U) Technical audit – agreed upon procedures	Page 166 Pages 167 to 187	Page 127 Pages 124 to 126

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 <sup>6</sup>	Page 101	Page 127
B	Technical operational performance data included within pages 8 to 30	Jacobs	Technical audit – agreed upon procedures	Pages 124 to 126	Pages 124 to 126
C	Risk and Compliance Statement	Jacobs	Specific review and report on the Risk and Compliance Statement (memorandum published at <a href="http://www.southwestwater.co.uk/report2019">www.southwestwater.co.uk/report2019</a> )		See <a href="http://www.southwestwater.co.uk/report2019">www.southwestwater.co.uk/report2019</a>
D	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 85).

5 Unit cost metrics information on pages 115 to 117 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 is within the scope of EY's financial agreed upon procedures.

6 In addition to statutory audit requirements.

## WaterShare Panel/WaterFuture Customer Panel

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

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

The Panel reviews the Company's approach to sharing customer benefit and the timing of sharing any net gain. The Panel has overseen the successful operation of WaterShare for the first four years of the current regulatory cycle with accrued benefits to customers totalling £110m.

CUSTOMER	WATERSHARE	SHAREHOLDER
Cumulative to 2018/19		Cumulative to 2018/19
£m		£m
80	<b>Net totex savings</b>	113
11	<b>ODIs</b>	11
19	<b>Other items<sup>1</sup></b>	–
<b>110</b>	<b>Total Value Benefit</b>	<b>124</b>

<sup>1</sup> Other items include sharing market movements on new financing voluntarily returned to customers and the impact of new legislation.


The WaterShare Panel is satisfied that South West Water has been open and transparent, listened and fully responded to the challenges put forward by the WaterShare Panel and that the operation of the WaterShare mechanism has been appropriate.

Performance has been transparently reported with benefits being passed back to customers in accordance with customer wishes as evidenced through customer research. Benefits to date have been passed back to customers through a mix of bill reductions, reinvestment in improvements in services and deferring some benefits for future pass back.

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

I am pleased that this year South West Water received fast track status for its business plan. The WaterFuture panel offered strong constructive challenge as the plan was developed and to its credit, South West Water listened and acted on what customers said. The result is an innovative plan for the period 2020-25 that reduces bills, invests more, protects the environment, gives customers more control, and supports those most in need.

Minutes of all of our meetings are recorded and published for customers to see. For more information see [www.southwestwater.co.uk/waterfuture](http://www.southwestwater.co.uk/waterfuture).



### Nick Buckland OBE

Chair of the WaterShare Panel  
and WaterFuture Customer Panel



## 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 ensure 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.

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

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

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



**Richard Lacey**

Chair of the Customer View Group



# Risk and compliance statement

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## Governance

The 2018/19 South West Water Annual Performance Report and Regulatory Reporting highlights Company performance for the fourth year of the five-year 'K6' regulatory period (2015 to 2020).

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

In line with Ofwat's Regulatory Reporting requirements, this risk and compliance statement details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders.

The South West Water Board has in place a well established and effective set of policies and processes covering corporate governance, internal control and risk management.

## STATUTORY OBLIGATIONS

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

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

The South West Water Board has received reports from the business detailing the applicable statutory licence and regulatory obligations (for which Ofwat is the relevant enforcement authority) and the means by which compliance in all material aspects with those obligations is assured within South West Water for 2018/19.

## 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 2018/19 South West Water had a fully functioning and standalone Board and Committees. The business of the Board with associated Audit, Sustainability, Remuneration and Nomination Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance.

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

The governance framework is set out in the governance section on pages 62 to 66. 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 72 to 89 of the Annual Report and Financial Statements. These, together with the risk management and internal controls frameworks form an effective and robust governance structure.

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

The South West Water Board of Directors comprised the Chairman (Non-Executive), two Executive Directors, five further Independent Non-Executive Directors (including a Senior Independent Director), two of whom are also Non-Executive Directors of the Pennon Group plc and Chris Loughlin, Pennon Group Chief Executive Officer as a non-independent Non-Executive Director. Since May 2019, Chris Loughlin has temporarily been appointed as Managing Director. The Board considers that the Chairman and each of the Independent Non-Executive Directors were independent throughout the year.

Susan Davy, Pennon Group Chief Financial Officer and Iain Evans a Pennon Group Non-Executive Director also attend the South West Water Board.

They are considered by the Board to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations and to represent customers' interests.

The Company has complied with the UK Corporate Governance Code 2016 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 71.

## 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).

## Risk and compliance statement continued

### 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 2019 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.

### Licence of Appointment – statement relating to Condition P

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

- That the Appointed activities are conducted as if it is substantially the Company's sole business and it is separate from any other business activities carried out by the Company
- The Company retains sufficient rights and assets and has in place adequate financial resources and facilities, management resources and systems of planning and internal controls
- Any transfers or transactions entered into by the Company do not adversely affect the Company's ability to carry out the regulated activities
- That in the opinion of the Board, South West Water would be able to maintain an Issuer Credit Rating which is investment grade.

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

- Key financial metrics including: adjusted interest cover; net debt/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
- Financial policies, including dividend policy.

South West Water performed a synthetic rating analysis utilising all relevant financial ratios aligned to specific credit rating guidelines.

Robust, independent external assurance was undertaken by a rating agency to support the Board's view which gave comments on both the current and future assessment of South West Water's credit rating.

This supported the internal assessments made and the opinions of the Board.

## 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, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed through our risk management framework, as detailed on pages 104 to 107 of the Risk Report.

The Company's long-term strategic business plan and associated principal risks 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 viability.

Over the course of the year the Audit Committee has reviewed the risk assessments for all of the 16 principal risks and 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
Capital projects	Review of the performance of large capital projects
Operational challenges	Ability of South West Water to maintain network resilience in extreme scenarios
Business resilience	A review of business continuity

All principal risks, including the net risk assessment and mitigations and alongside the risk appetite are reported on pages 110 to 116. 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 risks would in isolation compromise the Company's viability. In performing this stress testing all risks have been monetised with reference to risk weighting, factoring in the likelihood of occurrence and financial impact. In addition, further factors were considered to reverse engineer a scenario that could possibly compromise South West Water's viability, these included:

- All the principal risks occurring in all of the years up to 2030
- Lower retail price index (RPI) projections in each of the years up to 2030
- Significant one-off costs
- A deterioration in the credit quality of amounts owed to the Company.

The four factors above have been monetised as absolute financial costs with the principal risks weighted on the likelihood of occurrence.

The Board considered the monetary impact of these scenarios on the Company's viability up to the end of 2030, concluding the reversed engineering scenario remote. The period assessed reflect the longer-term nature of South West Water's business and greater visibility of future cashflows, to include the next two regulatory periods 2020-25 and 2025-30.

As part of the Board's considerations additional scenarios concerning viability were reviewed.

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

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

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.

South West Water has considered the impact of each scenario (and the combined scenario) upon key ratios used for South West Water's covenant compliance of gearing (net debt/RCV) and EBITDA interest cover. For all scenarios, including the extreme and implausible combined scenario above, these covenants are not exceeded in any year and would, therefore, not challenge the long-term viability.

In addition, we have assessed the impact of scenarios which do consider potential risk mitigations we would take including, efficiency programmes to reduce operating expenditure and innovations within the capital programme, opportunities for refinancing reducing interest costs and the option of deferring dividend payments into subsequent years or regulatory periods. Over the period to 2030 the key ratios below used in assessing financial resilience for credit ratings have been assessed:

- Gearing
- Adjusted interest cover
- FFO / net debt
- RCF / net debt

Based on our assessment these metrics would remain at an investment grade level in all but the extreme case where these impacts occur in every year to 2030 without any mitigation, which is considered implausible.

Ofwat's optimal notional gearing for 2020-25 is 60% and a maximum of 70% is set, above which further sharing of outperformance with customers would be required. In each of the scenarios (including in respect of the combined extreme scenario) the Company remains within that maximum as well as the range for investment grade credit ratings of 55-70%.

## Risk and compliance statement continued

### 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. The two bonds raised are back-to-back as if they were held directly. There are no Group financing arrangements except for £100m 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 24 to 30 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 2019 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 2019 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.



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

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

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

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

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

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

- our performance commitments in respect of the outcomes laid out in our 2015-20 and 2020-25 business plans, 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 96 to 97.

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 90 to 97). 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 78 and comprehensive disclosures of Director remuneration are provided in the South West Water Annual Report and Financial Statements (pages 97 to 104), including the specific performance targets used in the bonus calculations on page 86. These targets used are either in line or more stretching than South West Water's regulatory performance commitments.

NAME & POSITION	SIGNED
Sir John Parker <b>Chairman</b>	
Louise Rowe <b>Finance Director</b>	
Lord Taylor of Goss Moor <b>Non-Executive Director</b>	
Jon Butterworth <b>Non-Executive Director</b>	
Martin Hagen <b>Non-Executive Director</b>	
Neil Cooper <b>Non-Executive Director</b>	
Gill Rider <b>Non-Executive Director</b>	
Chris Loughlin <sup>1</sup> <b>Non-Independent, Non-Executive Director</b>	
Susan Davy <b>Pennon Group Chief Financial Officer</b>	
Iain Evans <b>Pennon Group Non-Executive Director</b>	

<sup>1</sup> Since May 2019, Chris Loughlin, has temporarily assumed the role of South West Water Managing Director.

# Risk report

## Risk management framework and internal control

South West Water's core business activities inherently expose the Group to a variety of risks and opportunities which could materially impact our ability to achieve our strategic priorities. The Board are 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 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.

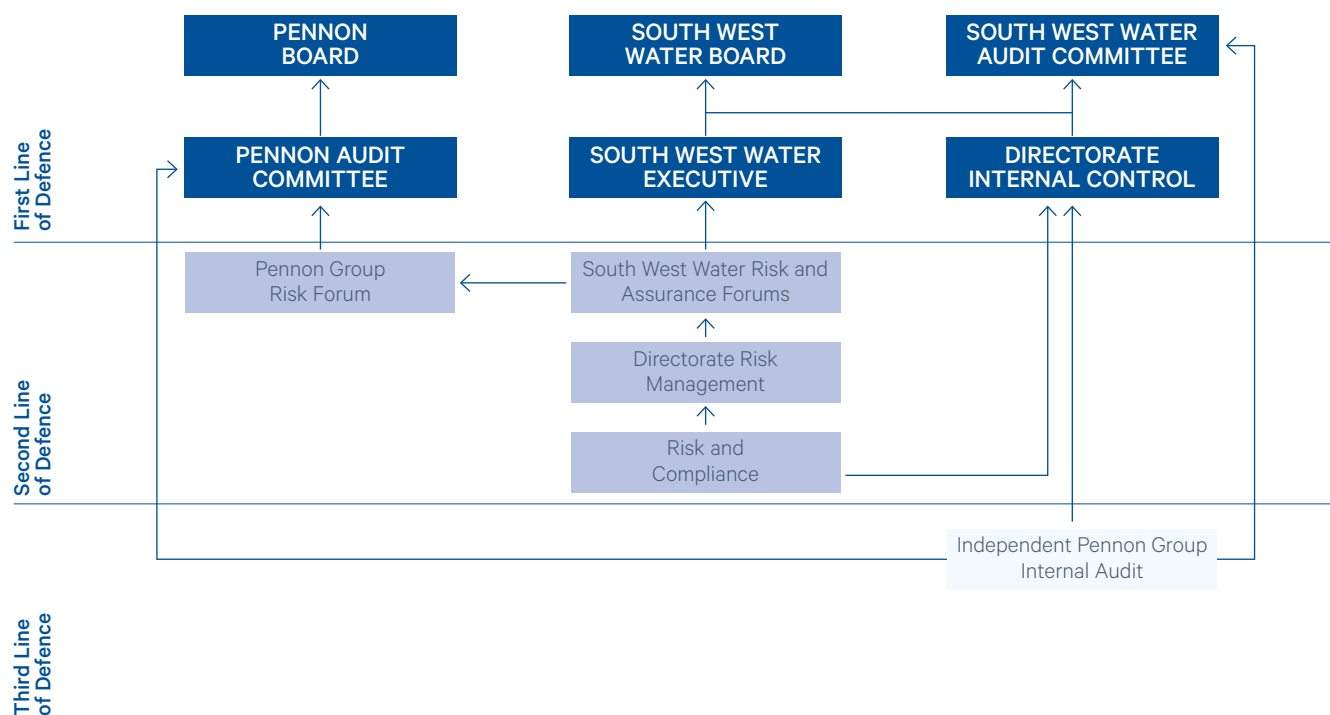
Our risk management framework encompasses both a 'top down' and 'bottom up' approach. This allows risks and opportunities to be cascaded and escalated effectively, while enabling a common understanding of the risks and opportunities that the Company is exposed to and their potential impact on the achievement 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.

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

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

		KEY RISK MANAGEMENT RESPONSIBILITIES	KEY ASSURANCE ACTIVITIES
First Line of Defence	BOARD	<ul style="list-style-type: none"> <li>Sets the Company's strategic objectives</li> <li>Establishes the Company's risk appetite</li> <li>Determines the Company's principal risks</li> <li>Ensures an effective internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly reviews of the Company's principal risks against the determined risk appetite</li> </ul>
	AUDIT COMMITTEE	<ul style="list-style-type: none"> <li>Reviews the effectiveness of the risk management framework</li> <li>Reviews the adequacy of the internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>Performs quarterly 'deep dive' reviews on principal risks</li> <li>Reviews the Group Internal Audit Plan in respect of South West Water</li> <li>Receives reports on the outcomes of key assurance activities</li> </ul>
	EXECUTIVE MANAGEMENT	<ul style="list-style-type: none"> <li>Day-to-day management of the principal and operational risks</li> <li>Establish the relevant risk management processes and procedures</li> <li>Maintaining the internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>Perform a thorough appraisal of the Company's risk profile quarterly</li> <li>Monitoring of the Company's performance against KPIs and financial performance</li> <li>Establish and review policies, procedures and delegated authorities</li> </ul>
Second Line of Defence	GROUP RISK FORUM	<ul style="list-style-type: none"> <li>Provides review and challenge over principal risks and mitigation strategies</li> <li>Alignment of the top down and bottom up risk management process</li> <li>Horizon scanning on emerging risks and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Review of principal risks on a quarterly basis</li> <li>Deep dive reviews of specific risks. Topics include: cyber security, renationalisation, health and safety and financial markets and liquidity</li> </ul>
	SOUTH WEST WATER RISK AND ASSURANCE FORUM	<ul style="list-style-type: none"> <li>Horizon scanning providing a forward-looking view on South West Water specific emerging risks and opportunities</li> <li>Reporting of updated risk statuses in respect of key Company projects</li> <li>Review of Group-wide shared service risk registers focusing on risks relevant to South West Water</li> </ul>	<ul style="list-style-type: none"> <li>Cyclical review of principal risks over an annual cycle</li> <li>Quarterly review of assurance processes and by exception the effectiveness of controls in mitigating risks</li> </ul>
	SOUTH WEST WATER DIRECTORATE FUNCTIONS	<ul style="list-style-type: none"> <li>The identification and assessment of risks</li> <li>Implementation and execution of appropriate risk mitigation strategies, aligned with the agreed risk appetite</li> <li>Monitor compliance with internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>Risk and Compliance functions undertake compliance activities over ISO standards and other key business processes</li> <li>Self-certification of compliance with internal control framework</li> </ul>
Third Line of Defence	GROUP INTERNAL AUDIT	<ul style="list-style-type: none"> <li>Provide independent, risk-based assurance on the effectiveness of the internal control framework</li> <li>Coordination of independent assurance activities</li> </ul>	<ul style="list-style-type: none"> <li>Regular reporting to Audit Committee and Pennon Executive on the effectiveness of internal controls and the outcomes from other third line assurance activity</li> </ul>

Overview

Operational performance

Regulatory reporting

## Risk report continued

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

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

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

Further details of Group-wide principal risks and application of the Group's risk management framework across the Group are provided in the Pennon Group plc Annual Report (pages 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
<b>Law, regulation and finance</b>	<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>
<b>Market and economic conditions</b>	<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>
<b>Operating performance</b>	<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>
<b>Business systems and capital investment</b>	<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>

### 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:

- There is greater coordination and alignment between assurance activities with integrated assurance reporting presented to the Board
- Significant progress has been made in rolling out the HomeSafe initiative across the Company, which has delivered reduced injury frequency rates
- A comprehensive health and safety second line assurance programme has been delivered by the Health Safety Security and Assurance function
- There has been further standardisation of operational and financial processes and controls as part of the corporate shared services structure
- A review has commenced to identify opportunities to further improve the Company's resilience arrangements.



## 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; notable the continued uncertainty arising from Britain's exit from the European Union (EU) and the potential renationalisation of the water industry. While the current Government are supportive of the existing regulatory model, in the event of a change of government, it remains the policy of the opposition to renationalise the water industry and Labour has provided further detail of their proposed approach during the year. In the event of this scenario occurring there would be a material impact to the Group's business model and consequently this remains a significant risk to the Company.

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 Company's principal risks have remained consistent with the 2018 annual report with the exception of one additional principal risk:

- Non-delivery of regulatory outcomes and performance commitments: this risk reflects the significance of the ODI regime in the regulatory model. South West Water has the opportunity for reward but also is exposed to risk if performance commitments are not achieved.

Over the past year the business planning process for the 2020-25 period has been ongoing, with Ofwat awarding South West Water's plan 'fast track' status in January 2019. This has reduced overall uncertainty, as reflected in the change of trend in risk B. It has also allowed the Company to commence working to achieve the 'step change' in performance required for the 2020-25 period, however the commitments agreed are more stretching. Therefore, a new principal risk has been recognised in respect of not achieving regulatory outcomes/performance commitments (principal risk N).

The level of risk and uncertainty in respect of political views on the future of the water industry remains high and continues to appear to influence the priorities of the regulator. This remains recognised at a net 'red' level (principal risk A).

During summer 2018, a sustained period of dry weather resulted in a number of operational challenges. This carries on a trend of increasing frequencies of more extreme weather events. This increased frequency (which appears to be mirrored by future projections), alongside recent experience of the cost of mitigating the impacts of such events and a reduction in stakeholder appetite, has resulted in an increase to this risk level (principal risk J). Decreases to bond yields following uncertainty in the Brexit process has resulted in principal risk G now being noted as amber, increasing.

Recent performance in respect of recovery of debt has resulted in a reduction to the level of the risk of non-recovery of customer debt and affordability (principal risk H). As at year end the underlying trend in this risk is however noted as rising due to uncertain external influences which may increase affordability challenges.

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

During the year, South West Water has continued to evaluate and monitor the potential risks and opportunities arising from Britain's decision to exit the EU. Cross functional working groups have been established and mitigation plans have been implemented focusing on those activities that are likely to be most impacted in the event of Britain leaving the EU without a withdrawal agreement. The Executive and Board have received regular updates throughout the year on the Company's preparations for a 'no-deal' scenario.

The Company continues to reflect the impact associated with Britain leaving the EU within the relevant principal risks. While no single issue is considered to expose South West Water to material risk, it is recognised that the combination of multiple issues or events could result in some disruption in the period immediately after leaving the EU in the event of a 'no-deal' scenario. Plans have been established which seek to minimise the potential impact on the Company and its operations.

The following issues have been identified as potentially having a significant impact on the Company's principal risks:

- Availability of chemicals (linked to principal risk: Business Interruption or significant operational failures / incidents). Detailed analysis has been completed on chemicals received from European based suppliers and on South West Water stock levels to ensure they continue to be maximised. Additionally, operational plans have been developed to ensure continued asset availability and that Government and Local Resilience Forum requirements are met. The Company has also been heavily engaged with Water UK in developing a national response. This has involved discussions with the UK Government, regulators and other key stakeholders, developing a 'critical chemicals' action plan jointly with the Chemicals Industry Association and due diligence being undertaken on critical chemical suppliers.
- Inability to access the same level of funding from the European Investment Bank (linked to principal risk: Maintaining sufficient finance and funding): Prior to the financial year end funding lines have been put in place which has resulted in cash and committed facilities to fund the Company's capital programme into K7 (2020-25). Furthermore, we have engaged with a variety of UK and European banks who have reaffirmed their appetite for UK infrastructure lending.
- The ability to attract and employ individuals with the necessary skills and experience (linked to principal risk: Difficulty in the recruitment, retention and development of skills): While the current position of the UK Government in the event of a 'no-deal' scenario is that EU nationals already in the country will be able to apply for settled status, the Company has been pro-active in reinforcing this to all affected staff. The Company has also sought assurances from temporary employment agencies as to their plans to ensure sufficient availability of temporary resource in the event of a 'no-deal' scenario.

The Directors confirm that during 2018/19 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 101.

# Risk report continued

## Strategic impact and risk rating

People and  
community

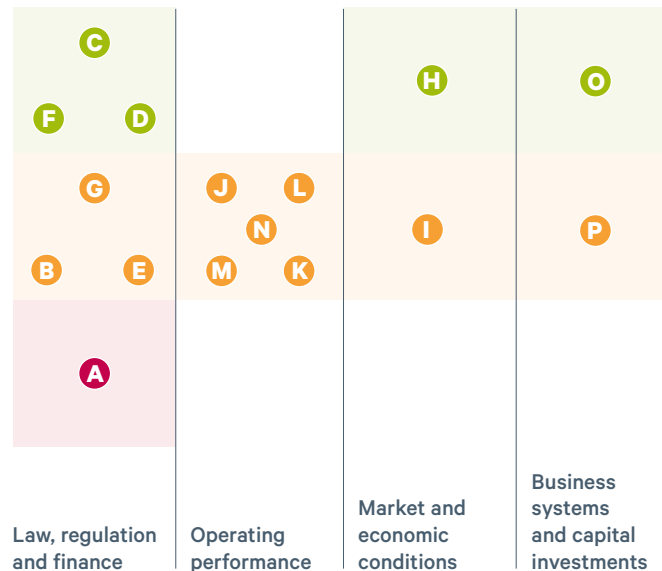
Finance and  
economy

Water

Service

Environment



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



PRINCIPAL RISK	REF	STRATEGIC PRIORITIES	RISK DESCRIPTION	NET RISK LEVEL	TREND
Law, regulation and finance	A	Finance and economy	Change in government policy/renationalisation		↔
	B	Environment Finance and economy	Regulatory reform		↔
	C	Environment Finance and economy	Compliance with laws and regulation		↑
	D	Finance and economy	Maintaining sufficient finance and funding to meet ongoing commitments		↔
	E	People and community	Non-compliance or occurrence of avoidable health and safety incident		↔
	F	People and community Finance and economy	Tax compliance and contribution		↔
	G	Finance and economy	Increase in defined benefit pension scheme deficit		↑
Market and economic conditions	H	Finance and economy	Non-recovery of customer debt 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		↔
	L	Water Service Environment	Business interruption or significant operational failure/incidents		↑
	M	People and community	Difficulty in recruitment, retention and development of skills		↔
	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		↑

## Principal risks: law, regulation and finance

### A. CHANGES IN GOVERNMENT POLICY/RENATIONALISATION



STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Finance and economy</b> Changes in Government policy may fundamentally impact our ability to deliver the Company's strategic priorities.	<p>While the Government is supportive of the existing regulatory model, the renationalisation of the water industry continues to be a central policy of the Labour Party and remains a possibility in the event of a change of government.</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>South West Water's 2020-25 business plan also detailed how we would empower customers further and deliver benefits for our stakeholders over the next regulatory period.</p>	<b>2019</b>  <b>2018</b> 	We recognise that government policy evolves and seek to minimise potential risk whilst maximising opportunities through regular communication and robust scenario planning.

### B. REGULATORY REFORM



STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Environment</b> <b>Finance and economy</b> 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>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 during the year on this topic.</p> <p>This concept was at the heart of South West Water's 2020-25 business plan, entitled 'New Deal', which received fast track status from Ofwat. The draft determination was received from Ofwat in April 2019. This included our commitment to provide customers with a shareholding and a greater say in how South West Water is run.</p> <p>Additionally, we continue to uphold the highest standards of corporate governance and transparency; including voluntary compliance with the UK Corporate Governance Code (to the extent possible in line with Group structure) and Ofwat's Principles for Board leadership, transparency and governance.</p>	<b>2019</b>  <b>2018</b> 	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.

## Principal risks: law, regulation and finance continued

## C. COMPLIANCE WITH LAWS AND REGULATIONS

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Environment</b> <b>Finance and economy</b> <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>The legal and regulatory landscape continues to become more onerous and complex requiring greater resource and focus.</p> <p>The Company operates a robust and mature regulatory framework which ensures compliance with Ofwat, Drinking Water Inspectorate, Environment Agency and other relevant requirements.</p> <p>A rolling programme of training and guidance to our staff, contractors and partners continues to be provided. This includes data protection training following the implementation of the Data Protection Act 2018 and the General Data Protection Regulation. During the year we have also refreshed our Code of Conduct and launched a specific Supply Chain Code of Conduct, further reinforcing the standards expected of our staff and our partners.</p> <p>The Company participates in Pennon Group's Speak Up whistleblowing process which allows any concerns to be raised confidentially and robust processes are in place for investigating these.</p> <p>Additionally during the year South West Water, as part of the Pennon Group, became a member of the Slave Free Alliance, demonstrating our commitment to eradicating modern slavery.</p>	<p><b>2019</b></p> <p></p> <p><b>2018</b></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
<b>Finance and economy</b> <p>Failure to maintain funding requirements could lead to additional finance costs and put our growth agenda at risk.</p> <p>Breach of covenants could result in the requirement to repay certain debt.</p>	<p>South West Water and the entire Pennon Group have mature treasury, funding and cash flow policies in place. We regularly consider how political, economic and regulatory risks may impact on the Company's financing commitments and cash flow.</p> <p>The 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 until the end of the 2015-20 period and is already identifying funds into the next regulatory period. The Pennon Group and South West Water now both consider viability over a minimum five year period and extensive work on the viability of the Company over 2020-25 was considered with external assurance provided by KPMG, as part of South West Water's business planning process. In addition, South West Water considers viability over the period to the end of 2030.</p> <p>South West Water successfully participated in a Green-Deal funding agreement and has made its first drawdown under this agreement during the year.</p>	<p><b>2019</b></p> <p></p> <p><b>2018</b></p> <p></p>	<p>We operate a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.</p>





## E. NON-COMPLIANCE OR OCCURRENCE OF AN AVOIDABLE HEALTH AND SAFETY INCIDENT

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>People and community</b>  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>The effective management of health and safety risks continues to be a priority for the Board and Executive, as demonstrated by the 2025 HomeSafe strategy.</p> <p>Experienced health and safety professionals are embedded within the Company providing advice, guidance and support to operational staff.</p> <p>The Group-wide HomeSafe programme continues to be rolled out across South West Water with both face-to-face training for operational teams and a programme of e-learning. It is supported by a programme of capital investment for existing assets.</p> <p>The benefits of the HomeSafe programme are already being seen with lost time injury frequency rates falling 7% during the year.</p>	<b>2019</b>   <b>2018</b> 	The Board has no appetite for health and safety-related incidents and expects the highest standards of compliance within the Company and third parties.

## F. TAXATION COMPLIANCE AND CONTRIBUTION



STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>People and community</b> <b>Finance and economy</b>  Non-compliance may result in financial penalties, legal costs and reputational damage.  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>The Pennon Group has an experienced and professionally qualified in-house tax team, supported, where necessary, by external specialists.</p> <p>During the year South West Water as part of the Pennon Group became the first water utility to secure 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>Processes and controls have been reviewed during the year to ensure we are able to continue to meet HMRC requirements.</p>	<b>2019</b>   <b>2018</b> 	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.

## G. INCREASE IN DEFINED BENEFIT PENSION DEFICIT



STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Finance and economy</b>  The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.	<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>During the past year there has been a significant decrease in bond yields resulting from uncertainty over Brexit, which could result in an increased deficit position following the revaluation of the defined benefit pension scheme.</p>	<b>2019</b>   <b>2018</b> 	The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.

## 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
<b>Finance and economy</b>  There is a potential impact on revenue as a result of reduced customer debt collection, particularly with regards to vulnerable customers and affordability.	<p>South West Water has mature and embedded debt collection strategies in place for the recovery of domestic customer debt which has delivered improved collection rates and decreased bad debt exposure during the past three years. There has been no significant increase in bills for 2019/20 and real-term decreases form part of the business plan for 2020-25.</p> <p>The potential economic impact of Brexit on our customers remains a risk. We work proactively with our customers who are struggling to pay and have a range of affordability schemes and social tariffs to support them including Restart, WaterCare and Freshstart.</p> <p>In addition to household customers, this risk reflects the non-recovery of debt from non-household retailers. In line with market codes, robust procedures have been established to protect South West Water from large scale exposure to retailer default.</p> <p>The risk direction of travel has changed to increasing due to uncertain external influences such as the impact of the UK leaving the European Union on the national economy and known increases on affordability challenges.</p>	<b>2019</b>   <b>2018</b> 	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.

## I. MACRO-ECONOMIC RISKS ARISING FROM A DOWNTURN IN THE GLOBAL AND UK ECONOMY AND COMMODITY AND POWER PRICES



STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Finance and economy</b>  The economic climate as well as commodity and energy prices have a direct impact upon the amount we pay for goods and services.	<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>The Procurement Steering Group (PSG) oversees strategies and policies to promote effective working practices for strategic contracting relationships. 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>	<b>2019</b>   <b>2018</b> 	We seek to take well-judged and informed decisions whilst ensuring plans are in place to mitigate the potential impact of macro-economic risks.

## 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
<b>Water</b> <b>Environment</b> <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>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>Key lessons learned from the freeze-thaw event in March 2018 were incorporated into our 2018/19 winter preparedness planning. Extensive modelling and forecasting is also performed to evaluate South West Water's Water resources, both in actively managing resources in periods of dry weather but also managing long-term water resources as demonstrated through South West Water's 25 year Water Resources Management Plan.</p>	<p><b>2019</b></p>  <p><b>2018</b></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>



### K. POOR CUSTOMER SERVICE/INCREASED COMPETITION LEADING TO LOSS OF CUSTOMER BASE

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Service</b> <p>Poor customer service has a direct impact on South West Water's delivery of the PR14 business plan.</p>	<p>There has been a continued focus on customer experience and the customer journey during the year.</p> <p>Enhanced capability within our call centre, investment in training and expanded channels to interact with our customers resulted in South West Water's best ever SIM customer service score with a ranking of second out of all water and sewerage companies in England and Wales.</p> <p>South West Water is also accredited to the Institute of Customer Service's 'ServiceMark' accreditation'. Planning is also underway to evaluate South West Water's performance under the new C-MeX guidance, which will replace SIM from 2020.</p>	<p><b>2019</b></p>  <p><b>2018</b></p> 	<p>We continually seek to improve customer satisfaction.</p>

## Risk report continued

### Principal risks: operating performance continued

#### L. BUSINESS INTERRUPTION OR SIGNIFICANT OPERATIONAL FAILURE/INCIDENTS

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Water</b> <b>Service</b> <b>Environment</b> <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 PR14 business plan.</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"> <li>• water quality deterioration</li> <li>• contamination of water supplies</li> <li>• pollution and flooding events</li> <li>• water resource restrictions.</li> </ul> <p>South West Water maintains detailed contingency plans and incident management procedures which are regularly reviewed and assets are managed through a programme of sophisticated planned and preventive maintenance and effective management of stores.</p> <p>Extensive Brexit 'no-deal' planning has also been undertaken.</p> <p>Continued investment alongside South West Water's pollution reduction strategy has resulted in a reduction of serious pollution incidents to two during the year. This was among the lowest number of such incidents in the industry.</p> <p>A further reduction in the number of pollution events (including more minor incidents) has been identified as a priority and a programme of targeted action is underway to address these risks.</p>	<p><b>2019</b></p> <p></p> <p><b>2018</b></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
<b>People and community</b> <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 and a range of initiatives have been delivered during the year 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>Mitigating actions have also been taken to reduce the potential impact of a Brexit 'no-deal' scenario on our workforce.</p> <p>South West Water's apprenticeship programme also spans all areas of the business and has now seen a number of apprentices successfully attaining full-time roles following completion of their apprenticeships. Succession plans remain in place for key positions.</p>	<p><b>2019</b></p> <p></p> <p><b>2018</b></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

During the year, South West Water has introduced a new principal risk to its register. This risk reflects a rising risk profile in respect of regulatory outcomes and performance commitments for the 2020-25 period.

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Water Service</b> <b>People and community</b> <b>Environment</b> <b>Finance and economy</b> <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 £11.3m. We are on track to meet all of our commitments by 2020.</p> <p>The risk reflects the significance of the ODI regime in the regulatory model. South West Water has the opportunity for reward but is also exposed to risk if performance commitments are not achieved.</p> <p>Following the South West Water 2020-25 business plan being awarded 'fast-track' status, we are already working on plans to deliver a 'step change' in operational performance as well as meeting our 2020 commitments.</p>	<p><b>2019</b></p>  <p><b>2018</b> N/a – new risk introduced in line with an higher risk profile for the 2020-25 period</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 FAILURE

STRATEGIC IMPACT	MITIGATION AND COMMENTARY	RISK LEVEL AND TREND	RISK APPETITE
<b>Water Service</b> <p>Inability to successfully deliver on our capital programme may result in increased costs and delays and detrimentally impact our ability to provide top class customer service.</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>As a result of the financial challenges experienced by large contractors in the construction sector, there is a reduced appetite for large water and waste construction projects, resulting in a general lack of commercial tension. Regular monitoring is performed on the financial health of key contractors and supply chain partners.</p> <p>The Mayflower Water Treatment Works in Plymouth is now in the commissioning phase. The site will use new technology to provide high quality drinking water to customers in Plymouth in as efficient a manner as possible. The project is a major investment for South West Water and forms part of the capital programme in the 2015-20 business plan.</p>	<p><b>2019</b></p>  <p><b>2018</b></p> 	<p>South West Water's investment activities are taken on an informed basis with risks weighed against appropriate returns.</p>

## 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
<b>Water Service</b>  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>South West Water and the wider Group operate a mature and embedded governance framework over the business as usual IT environment as well as major project implementations aligned to the ISO 27001 standards which South West Water has been certified under for several years and regular internal and external assessments are undertaken to maintain this accreditation.</p> <p>Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed and tested.</p> <p>Cyber threats continue to increase in volume and sophistication. These risks are mitigated by a strong information security framework aligned to guidance issued by the National Cyber Security Centre (NCSC).</p> <p>A gap analysis of South West Water's drinking water operational technology cyber security controls has been undertaken against the requirements of the Network and Information Systems (NIS) directive utilising external expertise. The outcomes of this exercise have informed future actions where opportunities for further improvement exist.</p>	<p><b>2019</b>   </p> <p><b>2018</b>   </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.

# 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 124 to 130 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 2019.

## 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 78 to 89 of the Remuneration report including details of the performance-related bonus arrangements and the amounts paid to Directors under those arrangements. These arrangements apply to 2020, when we have committed to update both the annual bonus and the long-term incentive plan to greater align to Director's remuneration with customer priorities and services outputs.

## 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 is forecast to result in some c.£25m of benefits with an estimated benefit in K7 of c.£20m.

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 has 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 5.0%.

Base dividends are calculated and paid during the year – which 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 improve 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 of 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](http://www.southwestwater.co.uk). The methodology statement explains in detail the basis of allocations for costs and assets.



## REVENUE RECOGNITION

Revenue represents the income receivable in the ordinary course of business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

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 2017/18. A retrospective review of the 2017/18 measured income accrual and the amounts actually billed during 2018/19 which would be expected to align to the accrual was performed and there was no material difference.

A property which is believed to be occupied (due to meter activity or other occupancy indicator), but where the occupier's details are not known, is billed in the name of 'the occupier' as efforts are made to obtain the occupier's details. The Company actively seeks to identify the name of 'the occupier' through multiple measures including visits to the property and land registry searches. If the occupier cannot be confirmed within 90 days of invoice, the bill is cancelled and the property classified as void. These properties are given a void status within the billing system, they are not billed speculatively (that is to 'the occupier') and revenue is not recognised against these properties.

Where an invoice has been raised or payment made but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year's revenue but will instead be recognised within creditors.

Charges on income arising from court, solicitor and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover.

A summary of the differences between revenue recognised in the statutory financial statements and Regulatory Reporting is included on page 128.

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 £5.8m of revenue recognised within the Regulatory Reporting which is not recognised as revenue within the Financial Statements.

Following this accounting treatment an additional £5.8m is recognised as a bad debt charge within operating expenses compared to the statutory financial statements, which results in no difference in operating profit or profit before tax.

## CAPITALISATION POLICY NOTE

The cost of property, plant and equipment capitalised includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Costs which meet the criteria for a capital asset and total in excess of £1,000 are capitalised.

Plant, property and equipment includes:

### i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS and subsequent additions at cost, less accumulated depreciation. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the Company. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives and are principally:

Dams and impounding reservoirs	200 years
Water mains	40 – 120 years
Sewers	40 – 120 years

Assets in the course of construction are not depreciated until commissioned.

### ii) Other assets (including property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives to their residual value and are principally:

Freehold buildings	30 – 60 years
Operational properties	40 – 80 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	4 – 10 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Assets transferred from customers are recognised at fair value.

The assets' residual values and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

In line with IAS 23, within the Statutory Accounts and Financial Statements, borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. However within the Regulatory Reporting, in a deviation from IAS 23 and in line with Ofwat RAG 3.11 borrowing costs are not capitalised.

## BAD DEBT NOTE

At the balance sheet date the Company evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2019 the Company's current amounts receivable from customers were £199.7m against which £86.8m had been provided for impairment.

Debt is written off only when all methods have been used to trace previous occupiers.

There has been no change to the write-off policy or bad debt provisioning policy. Year on year movements in the trade debtor balance are discussed in the 'Financial Performance' section.

# Independent auditors' report

## Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of South West Water Limited

### Opinion

We have audited the tables within South West Water Limited's Annual Performance Report for the year ended 31 March 2019 ("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 capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), 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 within the Annual Performance Report: 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 117 to 119.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We 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 within the Annual Performance Report 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.

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

The Regulatory Accounting Statements on pages 128 to 147 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- The directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

## Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Independent auditors' report continued

### Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of South West Water Limited continued

#### Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 100, 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 within the Annual Performance Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

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/auditorsresponsibilities>. This description forms part of our auditor's report.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out on page 118 and its accounting methodology statement published on the Company's website on 15 July 2019. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).



## Opinion on other matters prescribed by Condition F

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

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

## Use of this report

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

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2019 on which we reported on 4 June 2019, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Ernst & Young LLP

Statutory auditor  
Reading

15 July 2019

# Technical auditors' report

## Introduction

South West Water (SWW) has eight Outcomes with 42 Performance Commitments (PCs) 18 of which have financial penalties or rewards incentives (Outcome Delivery Incentives (ODIs). Bournemouth Water (BW) has six Outcomes with 15 Performance Commitments ten of which have financial penalties or rewards incentives. For both SWW and BW these were mandated in the respective companies 2014 Final Determination, prior to the acquisition of BW by Pennon Group PLC.

SWW is monitoring and measuring its performance throughout AMP6 to ensure it meets its agreed targets. SWW is publishing its progress as at 31 March 2019 against the targets set in the 2014 FD.

Progress is monitored monthly by Senior Management and the Directors via the Directors' Report. In addition, the independent customer group, WaterFuture, for SWW's customers, and BW's Customer View Group also monitor performance and challenge the Company to ensure performance remains on track.

As SWW's technical assurance partner, we were requested to audit and assure the reported PC and ODI metrics which are derived from internal company data assured by Jacobs as part of this assignment. The purpose of the audit was to review the methodologies for compiling the information and provide an opinion on the accuracy, reliability and completeness of the data.

Our audits commenced in February 2019 for information reported on the calendar year cycle (e.g. water quality leakage), followed by detailed audits of the internal data tables in April and May 2019. Our data audits incorporated 'audit tests' which challenged the data, systems and processes to assess them against Red/Amber/Green (RAG) materiality criteria. These tests are set out in the RAG matrices which confirm our audit findings.

We presented this Assurance Report to the Executive Management Meeting on 2 May 2019. At the time, four audits were ongoing in accordance with our agreed schedule. These have since been completed and this report has been updated.

This Assurance Report provides assurance to the Executive Management that the reported PC and ODI performance is accurate, reliable and complete for the data and ODI metrics that have been audited. We also confirm that information is consistent with supporting data sets and commentaries used for internal purposes to operate and monitor the performance of the business.

## Audit opinion

Our audit of the internal 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.

At the time of providing this Assurance Report, a number of audits were ongoing in accordance with our agreed schedule. These have since been completed.

The majority of audits have identified a very small number of minor exceptions, process improvements and elements to monitor to ensure performance in the current year. We consider the metrics provide a fair and reasonable account of SWW's performance as measured through the ODIs for both the SWW and BW regions in 2018/19.

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 2019 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>We have also verified data included in APR table where we are the external assurer (as per pages 94 to 95) is also based upon this audited internal data.</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>

Our key audit findings follow; assessed against the agreed RAG criteria below.

- No exceptions and compliant with requirements
- Minor exceptions
- Material exceptions
- Non-material observation or suggested 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 the ODI information provides a fair and reasonable account of SWW's and BW's progress against the ODIs in year 4 of the 2015-20 period. We can also confirm that technical APR data is based upon data which we have audited. 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.
●	Performance in Supply Interruptions has improved with a significant change in culture to prioritise restoring / maintaining supplies during events, together with further deployment of pressure loggers to provide real time network information and investment in equipment. BW supply interruption processes now follow those in SWW and the systems have been integrated. These factors have driven performance and further increased confidence in the reported numbers.  The Serviceability sub-measure of unplanned interruptions >12 hours has returned to the reference level.
●	Internal QA of data has improved with evidence of director challenge and sign off available before (in the majority of cases) or at audit.
●	We confirmed all four asset Serviceability measures are 'Stable'.
●	One enforcement action was imposed by the DWI for a taste and odour event at Bratton Fleming WTW. The sub-measure is binary because only one enforcement action is permitted between the control lines. We assess the sub-measure as stable, however draw attention to the risk of a second enforcement action in the current year could take this sub-measure above the upper control line.
●	The sub-components of Wastewater Asset Health (infrastructure) all show improved performance. Sewer flooding (other causes), repeat floodings, and overall size of internal flooding register all show improvement. This is mainly due to network investment and proactive operational maintenance initiatives. The sewer flooding targets are highly challenging and SWW has achieved a reward in both categories.
●	The number of total burst mains is in line with performance in 2017/18 with an increase of 21, despite the impact of the freeze/thaw event in March 2018. The sub-measure remains in the middle of the upper and lower control lines indicating a generally stable network. The trend seen in previous years with an increase in bursts during the summer on Asbestos Cement mains, and a rise in Cast Iron mains bursts in the winter has repeated.
●	The BW cumulative target for Household Meter Installations remains on track at 85% of the AMP6 ODI target of 9,300. It is expected the Company will exceed this target in 2019/20.
●	For BW meters renewed we note the system change from ARM to Ellipse combined with staff absence resulted in no planned meter exchanges undertaken from December 2018 to March 2019. Whilst this is not an ODI commitment, this has impacted final reported numbers and 5,283 meter exchanges will need to be recouped during 2019/20 to meet the 20,000 cumulative internal target for AMP6.
●	SWW's leakage is confirmed as in line with the target for the calendar year. Similarly, BW's leakage for the Financial Year is outperforming the target and may be on track to meet the stretch target at the end of the AMP.  The changes to measured and unmeasured demand due to the severe March winter storm and anomalous summer dry period have been fully explained.
●	The audit of Sludge disposal identified a minor error whereby an entry was presented for the calendar year that should have been for the financial year, which is being resolved. We highlighted the need for an improved methodology to be documented which the team has advised is being addressed.
●	Odour contacts for wastewater treatment works has exceeded the target which is attributable to the exceptionally hot weather over the 2018 summer period. Our audit did not identify any other underlying cause, however performance attracts a penalty payment.
●	Performance with BW's ODI to Repair Visible Leaks (percentage of visible leaks being repaired within seven calendar days of BW becoming aware) has improved to 74% (was 64% in 17/18, was 80.0% in 16/17). We understand this is due to a lower number of experienced resources within the framework contractor's organisation and will need focus in the current year to achieve the end of AMP target of 85%.
●	Compliance with water quality standards has improved with SWW's Mean Zonal Compliance exceeding the target at 99.99% (target is 99.98%), and on target at 100% for BW (target is 100%).
●	95.4% of Water operational contacts were resolved first time exceeding the target of 94%.
●	91.7% wastewater operational contacts resolved first time against a target of 94% which attracts a small in-period penalty. Both targets increase year on year.

## Technical auditors' report continued

●	Pollutions (Water) Category 1 & 2 is on target at zero.
●	Pollutions (Water) Category 3 & 4 has improved to 12 (was 18 in 17/18) against the annual target of 2. We found this results from better awareness among operators and more self reporting, and a change in the EA's requirements for companies to challenge the categorisation of pollutions within 30 days, but the EA often failing to notify companies within this period. Performance attracts a penalty.
●	Pollutions (Wastewater) Category 1 & 2 has improved at 2 (was 3 in 17/18) against the annual target of zero. Performance is on the deadband of 2.
●	Pollutions (Wastewater) Category 3 & 4 has declined to 248 (was 237 in 17/18) against the annual target of 208. Performance attracts a penalty.
●	BW's ODI Contribute to the Community end of AMP target is unlikely to be met. No volunteer days took place in the region during the year. Where the AMP target is not met the Company will make a donation to a charity of the Customer View Group's choice in accordance with the PC definition.
●	We noted that the length of river water quality improved within the year from schemes becoming operational is reported as zero, however 155 km has been delivered cumulatively against the end of AMP target of 650 km. Schemes to improve 24 km have been completed but are not yet operational. Activity in 2018/19 included schemes to improve 72 km which have been started but not completed. This programme is back end loaded and we confirmed that SWW's delivery plan will likely exceed the target in 2020.
●	The percentage of SWW customers paying a metered bill is on the Underperformance Deadband of 82.8%.
●	Performance against SIM has improved for SWW and exceeded the end of AMP target (85) at 876.
●	BW's SIM score is 876 against the end of AMP target of 89.
●	BW's Performance Commitment to reduce energy used in water delivery has an end of AMP target. BW is currently above where it would like to be for this metric, however it is influenced by water demand, the use of more expensive sources and associated pumping regimes. This was apparent during the hot, dry conditions in the summer of 2018 when increased pumping was required to meet demand.
●	<p>The integration of BW into SWW has benefited the Company where good practices from the former separate companies have been applied cross-region:</p> <ul style="list-style-type: none"> <li>• Of significant note is the successful transfer of BW's customer billing information from Gentrak to Rapid, and job management system from ARM to Ellipse. This occurred in November and has been confirmed through audit as seamless from a customer perspective and reported from different parts of the business as a success without any disruption. SWW prepared well for these changes of systems, for example the Company backfilled with SWW staff whilst BW staff were taken off line for training in the new systems.</li> <li>• In turn the system integration described above has benefited the Central team monitoring and investigating supply interruption performance.</li> <li>• Network model coverage in SWW has progressed during the year and there is a clear plan to deliver the remaining models in the remainder of the AMP.</li> </ul>
●	<p>Overall positive performance that stands out from our audits and assurance is:</p> <ul style="list-style-type: none"> <li>• Internal sewer flooding</li> <li>• Supply interruptions</li> <li>• Customer service and integration of BW's CRM system into SWW's system.</li> </ul>

Audits of financial information are completed by the financial auditors.



**G D Hindley**

Technical Assurance Director, Jacobs  
15 July 2019



# 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

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Revenue	582,377	(9,074)	11,126	(20,200)	<b>562,177</b>
Operating costs	(333,282)	(6,511)	(10,495)	3,984	<b>(329,298)</b>
Other operating income	–	1,691	–	1,691	<b>1,691</b>
Operating profit	249,095	(13,894)	0,631	(14,525)	<b>234,570</b>
Other income	–	14,187	0,835	13,352	<b>13,352</b>
Interest income	2,291	–	0,044	(0,044)	<b>2,247</b>
Interest expense	(72,799)	(2,089)	–	(2,089)	<b>(74,888)</b>
Other interest expense	–	(0,811)	–	(0,811)	<b>(0,811)</b>
Profit before tax and fair value movements	178,587	(2,607)	1,510	(4,177)	<b>174,470</b>
Fair value gains/(losses) on financial instruments	–	–	–	–	<b>–</b>
Profit before tax	178,587	(2,607)	1,510	(4,177)	<b>174,470</b>
UK Corporation tax	(28,249)	–	(0,253)	0,253	<b>(27,996)</b>
Deferred tax	(0,971)	0,433	(0,030)	0,463	<b>(0,508)</b>
<b>Profit for the year</b>	<b>149,367</b>	<b>(2,174)</b>	<b>1,227</b>	<b>(3,401)</b>	<b>145,966</b>
<b>Dividends</b>	<b>(123,100)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(123,100)</b>
<b>Tax analysis</b>					
Current year	(32,195)	–	(0,253)	0,253	<b>(31,942)</b>
Adjustments in respect of prior years	3,946	–	–	–	<b>3,946</b>
UK Corporation tax	(28,249)	–	(0,253)	0,253	<b>(27,996)</b>

£m

### Analysis of non-appointed revenue

Imported sludge	–
Tankered waste	1,444
Other non-appointed revenue	9,682
<b>Revenue</b>	<b>11,126</b>

The Company does not have any financial instruments accounted for at fair value through the income statement. Line 1A.2, statutory operating costs, includes a provision of £1.9 million relating to the equalisation of benefits under the Guaranteed Minimum Pension ruling which is treated as a non-underlying item in the statutory accounts.

### 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	5,800	(5,800)	–	–	–	–	–
Net income/operating cost allocations <sup>1</sup>	(0,687)	0,687	–	–	–	–	–
Classification of new connections & infrastructure income	(13,352)	–	–	13,352	–	–	–
Classification of rental income	(0,835)	–	–	0,835	–	–	–
Profit on disposal of fixed assets	–	(1,691)	1,691	–	–	–	–
Capitalised interest, depreciation and tax impacts	–	0,293	–	–	(2,089)	0,433	(1,363)
Pension interest allocation (other interest expense)	–	–	–	–	(0,811)	–	(0,811)
<b>Net adjustments</b>	<b>(9,074)</b>	<b>(6,511)</b>	<b>1,691</b>	<b>14,187</b>	<b>(2,900)</b>	<b>0,433</b>	<b>(2,174)</b>

<sup>1</sup> 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 adjustments £m	Total appointed activities £m
Profit for the year	149,367	(2,174)	1,227	(3,401)	<b>145,966</b>
Actuarial gains/(losses) on post employment plans	(5,087)	–	(0,051)	0,051	<b>(5,036)</b>
Other comprehensive income	(3,591)	–	–	–	<b>(3,591)</b>
<b>Total comprehensive income for the year</b>	<b>140,689</b>	<b>(2,174)</b>	<b>1,176</b>	<b>(3,350)</b>	<b>137,339</b>

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

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
<b>Non-current assets</b>					
Fixed assets	3,013.234	(14.629)	5.573	(20.202)	<b>2,993.032</b>
Intangible assets	51.805	–	–	–	<b>51.805</b>
Investments – loans to Group companies	–	–	–	–	<b>–</b>
Investments – other	3.300	–	–	–	<b>3.300</b>
Financial instruments	–	–	–	–	<b>–</b>
Retirement benefit assets	–	–	–	–	<b>–</b>
<b>Total non-current assets</b>	<b>3,068.339</b>	<b>(14.629)</b>	<b>5.573</b>	<b>(20.202)</b>	<b>3,048.137</b>
<b>Current assets</b>					
Inventories	4.854	–	–	–	<b>4.854</b>
Trade & other receivables	144.127	–	5.235	(5.235)	<b>138.892</b>
Financial instruments	–	–	–	–	<b>–</b>
Cash & cash equivalents	329.480	–	3.059	(3.059)	<b>326.421</b>
<b>Total current assets</b>	<b>478.461</b>	<b>–</b>	<b>8.294</b>	<b>(8.294)</b>	<b>470.167</b>
<b>Current liabilities</b>					
Trade & other payables	(109.624)	39.631	0.698	38.933	<b>(70.691)</b>
Capex creditor	–	(37.671)	–	(37.671)	<b>(37.671)</b>
Borrowings	(87.878)	–	–	–	<b>(87.878)</b>
Financial instruments	(10.931)	–	–	–	<b>(10.931)</b>
Current tax liabilities	(15.292)	–	(0.143)	0.143	<b>(15.149)</b>
Provisions	(1.071)	(1.960)	–	(1.960)	<b>(3.031)</b>
<b>Total current liabilities</b>	<b>(224.796)</b>	<b>–</b>	<b>0.555</b>	<b>(0.555)</b>	<b>(225.351)</b>
<b>Net current assets/(liabilities)</b>	<b>253.665</b>	<b>–</b>	<b>8.849</b>	<b>(8.849)</b>	<b>244.816</b>
<b>Non-current liabilities</b>					
Trade & other payables	–	–	–	–	<b>–</b>
Borrowings	(2,304.054)	–	–	–	<b>(2,304.054)</b>
Financial instruments	(9.112)	–	–	–	<b>(9.112)</b>
Retirement benefit obligations	(21.880)	–	(0.564)	0.564	<b>(21.316)</b>
Provisions	–	–	–	–	<b>–</b>
Deferred income – G&C's	–	–	–	–	<b>–</b>
Deferred income – adopted assets	(116.064)	–	–	–	<b>(116.064)</b>
Preference share capital	–	–	–	–	<b>–</b>
Deferred tax	(230.787)	2.493	(0.270)	2.763	<b>(228.024)</b>
<b>Total non-current liabilities</b>	<b>(2,681.897)</b>	<b>2.493</b>	<b>(0.834)</b>	<b>3.327</b>	<b>(2,678.570)</b>
<b>Net assets</b>	<b>640.107</b>	<b>(12.136)</b>	<b>13.588</b>	<b>(25.724)</b>	<b>614.383</b>
<b>Equity</b>					
Called up share capital	250.923	–	–	–	<b>250.923</b>
Retained earnings & other reserves	389.184	(12.136)	13.588	(25.724)	<b>363.460</b>
<b>Total equity</b>	<b>640.107</b>	<b>(12.136)</b>	<b>13.588</b>	<b>(25.724)</b>	<b>614.383</b>

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 2019.

Both statutory financial statements and Regulatory Reporting is based on International Financial Reporting Standards (IFRS) with the following adjustments to reflect the Regulatory Reporting Guidelines (RAGs).

	Fixed assets £m	Trade & other payables £m	Capex creditors £m	Current/ non-current provisions £m	Deferred tax £m	Net assets £m
Reallocation of capital creditors	–	37,671	(37,671)	–	–	–
Cumulative capitalised interest, depreciation and tax impact <sup>1</sup>	(14,629)	–	–	–	2,493	(12,136)
Deferred income reallocated to provisions	–	1,960	–	(1,960)	–	–
<b>Total</b>	<b>(14,629)</b>	<b>39,631</b>	<b>(37,671)</b>	<b>(1,960)</b>	<b>2,493</b>	<b>(12,136)</b>

<sup>1</sup> Cumulative capitalised interest of £15,347m and depreciation of £0,718m.

### Non-appointed

Non-appointed fixed assets reflect investments in solar and wind installations (prior to 2015) as well as hydro-generation schemes, fisheries and riverside assets and the fair value of non-appointed leased assets. In addition, investment to support tankered waste activities has been included within non-appointed assets.

Trade and other receivables reflect debt associated with non-appointed activities and trade payables are allocated based on operating costs.

Current tax liabilities represent the tax due on profits with deferred tax reflecting the capital allowances on fixed assets and the pension deficit.

Retirement benefit obligations are allocated based on the deficit associated with the pension scheme member and applying this to the activities within their employment history.

As all of the Company's borrowings have been raised to fund appointee activities, none of these have been apportioned to the non-appointed business.

Overview

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# Regulatory reporting continued

## TABLE 1D – Statement of cash flows

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
<b>Statement of cash flows</b>					
Operating profit	249,095	(13,894)	0,631	(14,525)	<b>234,570</b>
Other income	–	14,187	0,835	13,352	<b>13,352</b>
Depreciation	115,980	(0,293)	0,221	(0,514)	<b>115,466</b>
Amortisation – G&C's	–	–	–	–	<b>–</b>
Changes in working capital	(16,780)	15,248	–	15,248	<b>(1,532)</b>
Pension contributions	–	(15,248)	(0,154)	(15,094)	<b>(15,094)</b>
Movement in provisions	0,246	–	–	–	<b>0,246</b>
Profit on sale of fixed assets	(1,691)	–	–	–	<b>(1,691)</b>
<b>Cash generated from operations</b>	<b>346,850</b>	<b>–</b>	<b>1,533</b>	<b>(1,533)</b>	<b>345,317</b>
Net interest paid	(52,357)	(2,900)	–	(2,900)	<b>(55,257)</b>
Tax paid	(12,233)	–	(0,334)	0,334	<b>(11,899)</b>
<b>Net cash generated from operating activities</b>	<b>282,260</b>	<b>(2,900)</b>	<b>1,199</b>	<b>(4,100)</b>	<b>278,160</b>
<b>Investing activities</b>					
Capital expenditure	(140,747)	2,900	–	2,900	<b>(137,847)</b>
Grants & contributions	3,588	–	–	–	<b>3,588</b>
Disposal of fixed assets	1,947	–	0,003	(0,003)	<b>1,944</b>
Other	–	–	–	–	<b>–</b>
Net cash used in investing activities	(135,212)	2,900	0,003	2,897	<b>(132,315)</b>
<b>Net cash generated before financing activities</b>	<b>147,048</b>	<b>–</b>	<b>1,202</b>	<b>(1,202)</b>	<b>145,845</b>
<b>Cash flows from financing activities</b>					
Equity dividends paid	(123,100)	–	–	–	<b>(123,100)</b>
Net loans received	56,376	–	–	–	<b>56,376</b>
Cash inflow from equity financing	–	–	–	–	<b>–</b>
Net cash generated from financing activities	(66,724)	–	–	–	<b>(66,724)</b>
<b>Increase/(decrease) in net cash</b>	<b>80,324</b>	<b>–</b>	<b>1,202</b>	<b>(1,202)</b>	<b>79,122</b>

Commentary for the adjustments within the statement of cashflows 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				
	Fixed rate £m	Floating rate £m	Index linked £m	Total £m	
Borrowings (excluding preference shares)	1,397.944	476.836	517.152	<b>2,391.932</b>	Overview
Preference share capital				–	
<b>Total borrowings</b>				<b>2,391.932</b>	
Cash				<b>(43.777)</b>	Operational performance
Short-term deposits				<b>(282.644)</b>	
<b>Net debt</b>				<b>2,065.511</b>	
Gearing				<b>58.93%</b>	Regulatory reporting
Adjusted gearing				<b>58.85%</b>	
Full year equivalent nominal interest cost	25.919	5.967	26.195	<b>58.081</b>	
Full year equivalent cash interest payment	25.919	5.967	10.273	<b>42.159</b>	
<b>Indicative interest rates</b>					
Indicative weighted average nominal interest rate	2.01%	1.34%	5.26%	<b>2.60%</b>	
Indicative weighted average cash interest rate	2.01%	1.34%	2.06%	<b>1.89%</b>	
Weighted average years to maturity	16.48	19.56	29.27	<b>19.95</b>	

South West Water does not have any preference share capital.

The table above reflects the position of the appointed business and excludes the £3,059m of non-appointed cash assumed within short-term deposits. RCV at 31 March 2019 was £3,504.7m resulting in a gearing ratio of 58.93% for the appointed business.

Fixed and floating debt costs and interest rates are equivalent to the cash interest payments. Only index-linked debt has a differential between the interest charges and cash interest payments, where RPI is accreted into the loan balance.

The adjusted gearing is based on the total cash position (rather than the cash position of the appointed business only).

## Regulatory reporting continued

**TABLE 1F – Financial flows for the 12 months ended 31 March 2019  
(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	5.780	6.272	5.780	65.298	70.861	70.861
Actual performance adjustment 2010-15	(0.360)	(0.391)	(0.360)	(4.067)	(4.413)	(4.413)
<b>Adjusted Return on regulatory equity</b>	<b>5.420</b>	<b>5.882</b>	<b>5.420</b>	<b>61.231</b>	<b>66.447</b>	<b>66.447</b>
<b>Regulatory equity (£m)</b>	<b>1,129.731</b>	<b>1,129.731</b>	<b>1,225.966</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Financing</b>						
Gearing	–	(0.258)	(0.238)	–	(2.920)	(2.920)
Variance in corporation tax	–	(1.068)	(0.984)	–	(12.069)	(12.069)
Group relief	–	–	–	–	–	–
Cost of debt	–	3.888	3.582	–	43.920	43.920
Hedging instruments	–	(0.869)	(0.801)	–	(9.817)	(9.817)
<b>Financing total</b>	<b>5.420</b>	<b>7.574</b>	<b>6.979</b>	<b>61.231</b>	<b>85.561</b>	<b>85.561</b>
<b>Operational performance</b>						
Totex out / (under) performance	–	2.517	2.319	–	25.653	25.653
ODI out / (under) performance	–	0.366	0.337	–	4.132	4.132
Retail out / (under) performance	–	0.400	0.369	–	7.301	7.301
Other exceptional items	–	–	–	–	–	–
<b>Operational performance total</b>	<b>–</b>	<b>3.283</b>	<b>3.025</b>	<b>–</b>	<b>37.086</b>	<b>37.086</b>
<b>Total earnings</b>	<b>5.420</b>	<b>10.856</b>	<b>10.004</b>	<b>61.231</b>	<b>122.648</b>	<b>122.648</b>
RCV growth from RPI inflation	3.056	3.056	3.056	34.521	34.521	37.461
<b>Total shareholder return</b>	<b>8.476</b>	<b>13.912</b>	<b>13.060</b>	<b>95.752</b>	<b>157.168</b>	<b>160.109</b>
Net dividend	4.000	9.412	8.673	45.189	106.327	106.327
<b>Retained value</b>	<b>4.476</b>	<b>4.500</b>	<b>4.387</b>	<b>50.563</b>	<b>50.421</b>	<b>53.782</b>
<b>Dividends reconciliation</b>						
Gross dividend	4.000	9.412	8.673	45.189	106.327	106.327
Interest received on intercompany loans	–	–	–	–	–	–
<b>Net dividend</b>	<b>4.000</b>	<b>9.412</b>	<b>8.673</b>	<b>45.189</b>	<b>106.327</b>	<b>106.327</b>

Our actual average gearing ratio over the four 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.

We have no exceptional items to disclose for the period from 2015-2019. 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 2015-19					
	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	5.824	6.144	5.824	65.098	68.676	68.676
Actual performance adjustment 2010-15	(0.573)	(0.604)	(0.573)	(6.400)	(6.751)	(6.751)
<b>Adjusted Return on regulatory equity</b>	<b>5.251</b>	<b>5.540</b>	<b>5.251</b>	<b>58.699</b>	<b>61.924</b>	<b>61.924</b>
<b>Regulatory equity (£m)</b>	<b>1,177.849</b>	<b>1,117.849</b>	<b>1,179.274</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Financing</b>						
Gearing	–	(0.169)	(0.160)	–	(1.888)	(1.888)
Variance in corporation tax	–	(0.809)	(0.767)	–	(9.045)	(9.045)
Group relief	–	–	–	–	–	–
Cost of debt	–	3.790	3.540	–	42.364	41.741
Hedging instruments	–	(1.127)	(1.068)	–	(12.595)	(12.595)
<b>Financing total</b>	<b>5.251</b>	<b>7.225</b>	<b>6.796</b>	<b>58.699</b>	<b>80.791</b>	<b>80.138</b>
<b>Operational performance</b>						
Totex out / (under) performance	–	2.779	2.634	–	30.367	30.367
ODI out / (under) performance	–	0.272	0.258	–	3.044	3.044
Retail out / (under) performance	–	0.158	0.150	–	2.463	2.463
Other exceptional items	–	–	–	–	–	–
<b>Operational performance total</b>	<b>–</b>	<b>3.209</b>	<b>3.042</b>	<b>–</b>	<b>35.873</b>	<b>35.873</b>
<b>Total earnings</b>	<b>5.251</b>	<b>10.434</b>	<b>9.837</b>	<b>58.699</b>	<b>116.634</b>	<b>116.011</b>
RCV growth from RPI inflation	2.501	2.501	2.501	27.952	27.952	29.488
<b>Total shareholder return</b>	<b>7.752</b>	<b>12.934</b>	<b>12.338</b>	<b>86.651</b>	<b>144.586</b>	<b>145.499</b>
Net dividend	4.000	10.754	10.194	44.714	120.211	120.211
<b>Retained value</b>	<b>3.752</b>	<b>2.181</b>	<b>2.144</b>	<b>41.937</b>	<b>24.376</b>	<b>25.289</b>
<b>Dividends reconciliation</b>						
Gross dividend	4.000	10.754	10.194	44.714	120.211	120.211
Interest received on intercompany loans	–	–	–	–	–	–
<b>Net dividend</b>	<b>4.000</b>	<b>10.754</b>	<b>10.194</b>	<b>44.714</b>	<b>120.211</b>	<b>120.211</b>

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.

## Price review and other segmental reporting

**TABLE 2A – Segmental income statement**

	Retail				Wholesale				
	Household £m	Non- household £m	Water resources £m	Water Network+ £m	Water total £m	Wastewater Network+ £m	Sludge £m	Wastewater total £m	Total £m
Revenue – price control	39.816	–		240.452	<b>240.452</b>	277.883		<b>277.883</b>	<b>558.151</b>
Revenue – non price control	–	–		2.514	<b>2.514</b>	1.512		<b>1.512</b>	<b>4.026</b>
Operating expenditure	(25.570)	–	(11.747)	(84.545)	<b>(96.292)</b>	(77.366)	(14.604)	<b>(91.970)</b>	<b>(213.832)</b>
Depreciation – tangible fixed assets	(1.792)	–	(3.557)	(43.211)	<b>(46.768)</b>	(60.911)	(5.500)	<b>(66.411)</b>	<b>(114.971)</b>
Amortisation – intangible fixed assets	(0.346)	–	(0.005)	(0.102)	<b>(0.107)</b>	(0.033)	(0.009)	<b>(0.042)</b>	<b>(0.495)</b>
Other operating income	–	–	0.010	1.615	<b>1.625</b>	0.057	0.009	<b>0.066</b>	<b>1.691</b>
Operating profit before recharges	12.108	–			<b>101.424</b>			<b>121.038</b>	<b>234.570</b>
Recharges from other segments	(1.432)	–	–	–	<b>–</b>	–	–	<b>–</b>	<b>(1.432)</b>
Recharges to other segments	–	–	0.061	0.663	<b>0.724</b>	0.530	0.178	<b>0.708</b>	<b>1.432</b>
<b>Operating profit</b>	<b>10.676</b>	<b>–</b>			<b>102.148</b>			<b>121.746</b>	<b>234.570</b>
<b>Surface water drainage rebates</b>									<b>5.035</b>

### Operating costs

Operating costs allocations (including depreciation) are calculated using the methodology outlined on page 118.

### Other operating costs

Profit on the sale of fixed assets (other operating income) has been allocated based on the underlying asset category which generated the sale, with management and general assets being split pro-rata.

### Recharges

Recharges to other business segments reflect charges for the use of assets, and is equal to the depreciation charged in respect of management and general assets principally used by 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 £0.563m 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 74,761 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
<b>Operating expenditure</b>					
Power	2,622	15,438	17,384	1,282	<b>36,726</b>
Income treated as negative expenditure	(0,594)	(0,176)	–	(0,309)	<b>(1,079)</b>
Abstraction charges/discharge consents	4,666	0,334	3,968	–	<b>8,968</b>
Bulk supply/Bulk discharge	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>					
– Renewals expensed in year (Infrastructure)	–	5,471	10,630	–	<b>16,101</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	2,929	41,970	38,250	12,870	<b>96,019</b>
Local authority and Cumulo rates	2,124	20,059	5,452	0,761	<b>28,396</b>
<b>Total operating expenditure excluding third party services</b>	<b>11,747</b>	<b>83,096</b>	<b>75,684</b>	<b>14,604</b>	<b>185,131</b>
Third party services	–	1,449	1,682	–	<b>3,131</b>
<b>Total operating expenditure</b>	<b>11,747</b>	<b>84,545</b>	<b>77,366</b>	<b>14,604</b>	<b>188,262</b>
<b>Capital expenditure</b>					
Maintaining the long-term capability of the assets – infra	0,745	11,281	8,397	–	<b>20,423</b>
Maintaining the long-term capability of the assets – non-infra	2,368	33,726	29,843	5,059	<b>70,996</b>
Other capital expenditure – infra	3,082	11,686	18,279	–	<b>33,047</b>
Other capital expenditure – non-infra	1,511	8,698	11,685	–	<b>21,894</b>
Infrastructure network reinforcement	–	0,349	4,022	–	<b>4,371</b>
<b>Total gross capital expenditure excluding third party services</b>	<b>7,706</b>	<b>65,740</b>	<b>72,226</b>	<b>5,059</b>	<b>150,731</b>
Third party services	–	–	–	–	<b>–</b>
<b>Total gross capital expenditure</b>	<b>7,706</b>	<b>65,740</b>	<b>72,226</b>	<b>5,059</b>	<b>150,731</b>
Grants and contributions	0,811	11,586	7,615	–	<b>20,012</b>
Totex	18,642	138,699	141,977	19,663	<b>318,981</b>
Pension deficit recovery payments	0,227	4,941	4,518	0,900	<b>10,586</b>
<b>Total</b>					
Totex including cash items	18,869	143,640	146,495	20,563	<b>329,567</b>

**Operating expenditure**

- South West Water does not have any bulk supply or discharge costs
- Renewals expensed in the year (infrastructure) represents expenditure on significant repair and maintenance projects which was initially reported through the capital 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.

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.

Capital expenditure incurred on behalf of developers in respect of clean water new connections is reported in accordance with the International Financial Reporting Committee ruling on the accounting treatment of adopted assets. In 2017/18 this value was reported as third-party services expenditure but, in accordance with Ofwat's instructions, in Regulatory Accounting Guidance 4.08 (RAG 4.08) appendix 1, the values are now reported in the main part of the table as other capital expenditure-infra. The value, £5,113m in 2018/19, was reported for the main water network+ business unit.

## Price review and other segmental reporting continued

### TABLE 2C – Operating cost analysis – retail

	Household £m	Non-household £m	Total £m
<b>Operating expenditure</b>			
Customer services	9.917	–	<b>9.917</b>
Debt management	2.503	–	<b>2.503</b>
Doubtful debts	7.987	–	<b>7.987</b>
Meter reading	0.728	–	<b>0.728</b>
Services to developers	–	–	<b>–</b>
Other operating expenditure	4.432	–	<b>4.432</b>
Total operating expenditure excluding third party services	25.567	–	<b>25.567</b>
Third party services operating expenditure	0.003	–	<b>0.003</b>
Total operating expenditure	25.570	–	<b>25.570</b>
Depreciation – tangible fixed assets	1.792	–	<b>1.792</b>
Amortisation – intangible fixed assets	0.346	–	<b>0.346</b>
<b>Total operating costs</b>	<b>27.708</b>	<b>–</b>	<b>27.708</b>
Debt written off	10.437	–	<b>10.437</b>

#### Operating costs

South West Water's retail activities are largely undertaken by a wholly owned subsidiary Source Contact Management Limited. Cost allocations are based on the policy outlined on page 118 with a detailed methodology available from the website [www.southwestwater.co.uk](http://www.southwestwater.co.uk).

Further commentary on the performance of the retail business is included on page 46.

#### 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 119.

#### Capital expenditure

Capital expenditure for the retail business is reported in table 4F. Capital expenditure recognised directly in the retail business includes:

- Customer service improvement initiatives
- Information technology support and costs
- Directly attributable transport costs.

#### Non-household market

South West Water exited the non-household retail market on 1 April 2017. Following this date there are no associated retail costs in the non-household price control.



**TABLE 2D – Historic cost analysis of fixed assets – wholesale & retail**

	Wholesale				Retail		Total £m
	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	Household £m	Non- household £m	
<b>Cost</b>							
At 1 April 2018	121.300	1,843.621	2,368.560	137.640	23.958	–	<b>4,495.079</b>
Disposals	(0.083)	(1.539)	(1.156)	(0.074)	–	–	<b>(2.852)</b>
Additions	7.706	63.853	70.744	5.059	1.051	–	<b>148.413</b>
Adjustments	–	–	–	–	–	–	<b>–</b>
Assets adopted at nil cost	–	1.762	8.276	–	–	–	<b>10.039</b>
<b>At 31 March 2019</b>	<b>128.923</b>	<b>1,907.697</b>	<b>2,446.424</b>	<b>142.625</b>	<b>25.009</b>	<b>–</b>	<b>4,650.678</b>
<b>Depreciation</b>							
At 1 April 2018	(35.521)	(537.564)	(870.390)	(78.631)	(19.652)	–	<b>(1,541.758)</b>
Disposals	0.072	1.386	1.100	0.065	–	–	<b>2.623</b>
Adjustments	(0.107)	(0.777)	(2.475)	(0.181)	–	–	<b>(3.540)</b>
Charge for the year	(3.557)	(43.211)	(60.911)	(5.500)	(1.792)	–	<b>(114.971)</b>
<b>At 31 March 2019</b>	<b>(39.113)</b>	<b>(580.166)</b>	<b>(932.676)</b>	<b>(84.247)</b>	<b>(21.444)</b>	<b>–</b>	<b>(1,657.646)</b>
<b>Net book amount at 31 March 2019</b>	<b>89.810</b>	<b>1,327.531</b>	<b>1,513.748</b>	<b>58.378</b>	<b>3.565</b>	<b>–</b>	<b>2,993.032</b>
Net book amount at 1 April 2018	85.779	1,306.057	1,498.170	59.009	4.306	–	<b>2,953.321</b>
<b>Depreciation charge for year</b>							
Principal services	(3.557)	(43.211)	(60.911)	(5.500)	(1.792)	–	<b>(114.971)</b>
Third party services	–	–	–	–	–	–	<b>–</b>
<b>Total</b>	<b>(3.557)</b>	<b>(43.211)</b>	<b>(60.911)</b>	<b>(5.500)</b>	<b>(1.792)</b>	<b>–</b>	<b>(114.971)</b>

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 £148.7m in respect of assets in the course of construction.

Out of the total depreciation charge for the Company of £118.9m, the sum of £16m has been charged to capital projects, £2.0m has been offset by deferred income and £115.0m 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 £1.8m in water and £8.3m in wastewater. In total, cumulative adopted assets have a value of £125.1m before deducting depreciation.

## 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
<b>Grants and contributions – water</b>				
Connection charges (s45)	5.181	–	–	<b>5.181</b>
Infrastructure charge receipts (s146)	3.162	–	–	<b>3.162</b>
Requisitioned mains (s43, s55 & s56)	–	–	0.869	<b>0.869</b>
Other contributions (price control)	0.012	–	–	<b>0.012</b>
Diversions (s185)	1.905	–	0.208	<b>2.113</b>
Other contributions (non-price control)	0.249	–	0.811	<b>1.060</b>
<b>Total</b>	<b>10.509</b>	<b>–</b>	<b>1.888</b>	<b>12.397</b>
Value of adopted assets	–	1.762		<b>1.762</b>
<b>Grants and contributions – wastewater</b>				
Infrastructure charge receipts (s146)	5.009	–	–	<b>5.009</b>
Requisitioned sewers (s100)	–	–	1.269	<b>1.269</b>
Other contributions (price control)	0.121	–	0.213	<b>0.334</b>
Diversions (s185)	0.981	–	–	<b>0.981</b>
Other contributions (non-price control)	0.022	–	–	<b>0.022</b>
<b>Total</b>	<b>6.133</b>	<b>–</b>	<b>1.482</b>	<b>7.615</b>
Value of adopted assets	–	8.276	–	<b>8.276</b>

Contributions are principally received from developers in respect of both new connections, which are recognised in the income statement, and requisitioned mains/sewers which are netted from the capital expenditure for the related assets. Other contributions include other grants and contributions.

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. Sewer adoption fees of £0.168m are also reported as price control, a change from non-price control in last year. They do not form part of the values reported in Table 2I. Contributions (non-price control) relate to the review of and responding to, planning applications.

## TABLE 2E – Analysis of capital contributions and land sales – wholesale continued

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
<b>Movements in capitalised grants and contributions</b>			
Brought forward	–	–	–
Capitalised in year	–	–	–
Amortisation (in income statement)	–	–	–
<b>Carried forward</b>	–	–	–
<b>Land sales</b>			
Proceeds from disposals of protected land	1,444	–	<b>1,444</b>

There were no capitalised grants and contributions as these were fully utilised last year.

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	11.901	1.283	<b>13.184</b>	31.321	<b>41</b>
Unmeasured wastewater only customer	1.004	0.094	<b>1.098</b>	2.239	<b>42</b>
Unmeasured water and wastewater customer	77.838	5.274	<b>83.112</b>	103.802	<b>51</b>
Measured water only customer	11.359	1.380	<b>12.739</b>	32.742	<b>42</b>
Measured wastewater only customer	0.695	0.075	<b>0.770</b>	2.625	<b>29</b>
Measured water and wastewater customer	261.422	26.884	<b>288.306</b>	594.371	<b>45</b>
<b>Total</b>	<b>364.219</b>	<b>34.990</b>	<b>399.209</b>	<b>767.100</b>	<b>46</b>

In line with Ofwat guidance the customer numbers are the average over the 12 month period in line with the former June return (table 7).

## 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	7.438	1.438	<b>8.876</b>	54.287	<b>26</b>
Measured water only customer	16.050	3.387	<b>19.437</b>	138.896	<b>24</b>
<b>Total</b>	<b>23.488</b>	<b>4.825</b>	<b>28.313</b>	<b>193.183</b>	<b>25</b>

In line with Ofwat guidance the customer numbers are the average over the 12 month period in line with the former June return (table 7).

## 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)
<b>Non-default tariffs</b>			
<b>BOURNEMOUTH WATER</b>			
Total non-default tariffs (MNPW*)	4.745	<b>4.745</b>	0.003
<b>Default tariffs</b>			
<b>SOUTH WEST WATER</b>			
Standard Unmeasured Water (UW*)	1.206	<b>1.206</b>	2.123
Standard Measured Water (MW*)	47.648	<b>47.648</b>	62.565
Large & Special User 50-100ML Water (HW1*)	4.719	<b>4.719</b>	0.028
Large & Special User 100-150ML Water (HW2*)	2.259	<b>2.259</b>	0.007
Large & Special User 150+ML Water (HW3*)	1.119	<b>1.119</b>	0.002
Special agreements	0.002	<b>0.002</b>	0.063
<b>BOURNEMOUTH WATER</b>			
Standard Unmeasured Water (UW*)	0.214	<b>0.214</b>	0.748
Standard Measured Water (NHH1*)	1.979	<b>1.979</b>	10.700
Large User 0.75-2ML Water (NHH2*)	1.277	<b>1.277</b>	0.921
Large User 2-4ML Water (NHH3*)	1.002	<b>1.002</b>	0.334
Large User 4-5ML Water (NHH4*)	1.436	<b>1.436</b>	0.222
Large User 10-50ML Water (NHH5*)	1.024	<b>1.024</b>	0.060
Large User 50M+L Water (NHH6*)	0.315	<b>0.315</b>	0.004
Total default tariffs	64.200	<b>64.200</b>	77.777
<b>Total</b>	68.945	<b>68.945</b>	77.780

\* 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)
<b>Non-default tariffs</b>			
Total non-default tariffs	–	–	–
<b>Default tariffs</b>			
Standard Unmeasured Sewerage	1.980	<b>1.980</b>	1.734
Standard Measured Sewerage	48.946	<b>48.946</b>	41.005
Large & Special User 50-100ML Sewerage (HS1*)	1.220	<b>1.220</b>	0.006
Large & Special User 100+ML Sewerage (HS2*)	0.995	<b>0.995</b>	0.002
Special Agreements Sewerage	2.299	<b>2.299</b>	0.059
Trade Effluent	6.244	<b>6.244</b>	0.606
Total default tariffs	61.684	<b>61.684</b>	43.412
<b>Total</b>	61.684	<b>61.684</b>	43.412

\* 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.

South West Water non-household revenue is now recognised in line with the classifications within the CMOS system.

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## 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
<b>Wholesale charge – water</b>			
Unmeasured	40.063	1.207	<b>41.270</b>
Measured	107.956	55.747	<b>163.703</b>
Third party revenue	–	–	<b>–</b>
<b>Total</b>	<b>148.019</b>	<b>56.954</b>	<b>204.973</b>
<b>Wholesale charge – wastewater</b>			
Unmeasured	50.679	1.980	<b>52.659</b>
Measured	165.520	59.704	<b>225.224</b>
Third party revenue	–	–	<b>–</b>
<b>Total</b>	<b>216.199</b>	<b>61.684</b>	<b>277.883</b>
<b>Wholesale total</b>	<b>364.218</b>	<b>118.638</b>	<b>482.856</b>
<b>Retail revenue</b>			
Unmeasured	6.651	–	<b>6.651</b>
Measured	28.339	–	<b>28.339</b>
Other third party revenue	–	–	<b>–</b>
<b>Retail total</b>	<b>34.990</b>	<b>–</b>	<b>34.990</b>
<b>Third party revenue – non-price control</b>			
Bulk supplies – water			<b>0.089</b>
Bulk supplies – wastewater			<b>–</b>
Other third party revenue			<b>3.901</b>
<b>Total third party revenue – non-price control</b>			<b>3.990</b>
<b>Principal services – non-price control</b>			
Other appointed revenue			<b>–</b>
<b>Total appointed revenue</b>			<b>521.836</b>

Third party revenue within the price control reflects income on development planning and third party revenue outside the controls includes mains and sewer diversions, standpipe hire and other rechargeable works. Bulk supplies relate to treated water supplies to the neighbouring water company.

**TABLE 2I – Revenue analysis & wholesale control reconciliation for South West Water** continued

	Water £m	Wastewater £m	Total £m
Wholesale revenue governed by price control	204.973	277.883	<b>482.856</b>
Grants & contributions	8.915	6.457	<b>15.372</b>
<b>Total revenue governed by wholesale price control</b>	<b>213.888</b>	<b>284.340</b>	<b>498.228</b>
Amount assumed in wholesale determination	210.659	282.367	<b>493.026</b>
Adjustment for in-period ODI revenue	1.540	(4.520)	<b>(2.980)</b>
Adjustment for WRFIM	(7.375)	(4.396)	<b>(11.771)</b>
Total assumed revenue	204.824	273.451	<b>478.275</b>
<b>Difference</b>	<b>9.064</b>	<b>10.890</b>	<b>19.953</b>

The original revenue assumed in the wholesale determination (£493.026m) has been reduced by an adjustment for WRFIM (£11.771m), to reflect an over recovery of revenue in the financial year ended 31 March 2017. There is also a net adjustment to allowed revenue of £-2.980m for in period ODI rewards and penalties. Commentary on appointed revenue and the comparison with the 2014 Financial Determination is included on page 44.

As a wholesaler within the non-household market, which opened on 1 April 2017, we currently work with 21 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
<b>Wholesale charge – water</b>			
Unmeasured	7.438	0.214	<b>7.652</b>
Measured	16.050	7.032	<b>23.082</b>
Third party revenue	–	4.745	<b>4.745</b>
<b>Total</b>	<b>23.488</b>	<b>11.991</b>	<b>35.479</b>
<b>Wholesale total</b>	<b>23.488</b>	<b>11.991</b>	<b>35.479</b>
<b>Retail revenue</b>			
Unmeasured	1.438	–	<b>1.438</b>
Measured	3.387	–	<b>3.387</b>
Other third party revenue	–	–	<b>–</b>
<b>Retail total</b>	<b>4.825</b>	<b>–</b>	<b>4.825</b>
<b>Third party revenue – non-price control</b>			<b>–</b>
Bulk supplies – water			<b>–</b>
Other third party revenue			<b>0.036</b>
<b>Total third party revenue – non-price control</b>			<b>0.036</b>
<b>Principal services – non-price control</b>			
Other appointed revenue			<b>–</b>
<b>Total appointed revenue</b>			<b>40.340</b>

Third party revenue within the price control reflects income on development planning and third party revenue outside the controls includes standpipe hire and other rechargeable works.

Bulk supplies relate to treated water supplies to the neighbouring water company.

	Water £m	Total £m
Wholesale revenue governed by price control	35.479	<b>35.479</b>
Grants & contributions	0.309	<b>0.309</b>
<b>Total revenue governed by wholesale price control</b>	<b>35.788</b>	<b>35.788</b>
Amount assumed in wholesale determination	36.940	<b>36.940</b>
Adjustment for in-period ODI revenue	–	<b>–</b>
Adjustment for WRFIM	–	<b>–</b>
Total assumed revenue	36.940	<b>36.940</b>
<b>Difference</b>	<b>(1.152)</b>	<b>(1.152)</b>

The amount assumed in the wholesale determination is £37.179m less the small company premium of £0.239m, 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	
<b>Wholesale water network+ (treated water distribution)</b>		Overview
Distribution and trunk mains	0.349	
Pumping and storage facilities	–	
Other	–	
<b>Total</b>	<b>0.349</b>	Operational performance
<b>Wholesale wastewater network+ (sewage collection)</b>		
Foul and combined systems	2.702	
Surface water only systems	1.320	
Pumping and storage facilities	–	
Other	–	
<b>Total</b>	<b>4.022</b>	Regulatory reporting

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 2019

	Water	Wastewater	Total
<b>Impact of infrastructure charge discounts</b>			
Infrastructure charges	3.162	5.009	<b>8.171</b>
Discounts applied to infrastructure charges	–	–	<b>–</b>
<b>Gross infrastructure charges</b>	<b>3.162</b>	<b>5.009</b>	<b>8.171</b>
<b>Comparison of revenue and costs</b>			
Variance brought forward			
Revenue	3.162	5.009	<b>8.171</b>
Costs	(0.349)	(4.022)	<b>(4.371)</b>
<b>Variance carried forward</b>	<b>2.813</b>	<b>0.987</b>	<b>3.800</b>

This table reflects 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 2019 is attributable to high levels of private housebuilding combined with the timing of investment plans which will see increases in expenditure after 31 March 2020.



## Performance summary

**TABLE 3A – Outcome performance table for South West Water (2012/13 price base)**

	Units	2018/19 performance level – actual	2018/19 PCL met?
W-A1 Compliance with water quality standard	%	99.99	Yes
W-A2 Taste, smell and colour contacts	nr/1,000 pop	2.13	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	0.161	Yes
W-B1 Water restrictions placed on customers (number)	nr	0	Yes
W-B2 Ability to move water around the network	text	Partial	N/A
W-B3 Leakage levels (megalitres a day, MI/d)	nr	84	Yes
W-B4 Time taken to fix significant leaks (days)	nr	3	N/A
W-B5 Security of Supply Index (SoSI)	score	100	N/A
W-C1 Supplies interrupted due to flooded South West Water sites	nr	0	N/A
W-D1 Operational customer contacts resolved first time (%)	%	95.4	Yes
W-E1 Sustainable abstractions (EA/WFD classification)	nr	0	N/A
W-E2 Sustainable abstractions (Environment Agency water stress status)	category	Moderate	Yes
W-E3a Catchment management (number of acres)	nr	10,192	N/A
W-E3b Catchment management (number of farms)	nr	1,537	N/A
W-E4 Pollution incidents (category 1 and 2)	nr	0	Yes
W-E5 Pollution incidents (category 3 and 4)	nr	12	No
W-E6 Operational carbon emissions (ktCO <sub>2</sub> e)	nr	56.6	N/A
W-E7 Energy from renewable sources (%)	%	94.8	N/A
W-F1 Customers paying a metered bill	%	82.8	No
S-A1 Internal sewer flooding incidents	nr	93	Yes
S-A2 External sewer flooding incidents	nr	2,938	Yes
S-A3 Odour contacts (wastewater treatment works)	nr	335	No
S-A4 Asset reliability (pipes)	category	Stable	Yes
S-A5 Asset reliability (process)	category	Stable	Yes
S-A6 Compliance with sludge standard (%)	%	98.70	No
S-B1 Operational customer contacts resolved first time (%)	%	91.7	No
S-C1 Wastewater treatment numeric compliance (%)	%	98.7	N/A
S-C2 Wastewater population equivalent sanitary compliance (%)	%	99.9	N/A
S-C3 Wastewater descriptive works permit compliance (%)	%	99.7	No
S-C4 Pollution incidents (category 1 and 2)	nr	2	No
S-C5 Pollution incidents (category 3 and 4)	nr	248	No
S-C6 Operational carbon emissions (ktCO <sub>2</sub> e)	nr	68.7	N/A
S-C7 Energy from renewable sources (%)	%	5.35	N/A
S-D1 Bathing water quality	nr	0	Yes
S-D2 Combined sewer overflow spills (number)*	nr	N/A	N/A
S-D3 River water quality improved (km)	nr	156	N/A
R-A1 Customer overall satisfaction (%)	%	93.0	N/A
R-A2 Service incentive mechanism (SIM)	score	87.6	N/A
R-A3 Customer satisfaction with value for money	%	66.0	N/A
R-B1 Customers assisted by water poverty initiatives	nr	30,875	N/A

Based on the ODI performance for the year, £4.1318m of net reward has been recognised with £0.8511m (net penalty) assumed accrued for ‘in period’ adjustments and £4.9829m (net reward) adjusted at the end of the period. Rewards or penalties at 31 March 2019 have been calculated using the incentive rates and definitions consistent with Ofwat’s ‘Setting price controls for 2015-20. Final price control determination notice: company-specific appendix – South West Water’. Incentive values and rates are presented using 2012/13 prices.

\* Measure to be developed for the 2020-2025 period.

\*\* The number of bathing waters failing the EU Bathing Water Directive (more stringent Directive from 2015) where failure was allocated to South West Water by the Environment Agency, therefore no direct comparable 2014-15 performance level is available. The number of non-compliant bathing waters is expressed here as an absolute number, whereas in the 2014 Final Determination it is expressed as a negative number.

\*\*\* This figure includes an adjustment to previous years’ penalty resulting from re-classification of extreme weather events.

2018-19 outperformance payment or underperformance payment – in-period ODIs (indicator)	2018-19 outperformance payment or underperformance payment – in-period ODIs (£m, to 4 dp)	2018-19 outperformance payment or underperformance payment – ODIs payable at the end of AMP6 (indicator)	2018-19 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	N/A	N/A	10
Outperf' Deadband	N/A	N/A	N/A	N/A	N/A	11
N/A	N/A	N/A	N/A	N/A	N/A	12
N/A	N/A	N/A	N/A	N/A	N/A	12
N/A	N/A	Outperf' Payment	0.3447	Underperf' Payment	(2.3286)***	10
N/A	N/A	Outperf' Payment	16240	Outperf' Payment	6.4960	14
N/A	N/A	N/A	N/A	N/A	N/A	*
N/A	N/A	N/A	N/A	Outperf' Payment	1.2090	14
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	15
N/A	N/A	N/A	N/A	N/A	N/A	22
Outperf' Payment	0.0602	N/A	N/A	Outperf' Payment	0.5070	21
N/A	N/A	N/A	N/A	N/A	N/A	31
N/A	N/A	N/A	N/A	N/A	N/A	31
N/A	N/A	N/A	N/A	N/A	N/A	33
N/A	N/A	N/A	N/A	N/A	N/A	33
N/A	N/A	N/A	N/A	N/A	N/A	31
Underperf' Payment	(0.0220)	N/A	N/A	Underperf' Payment	(0.0880)	31
N/A	N/A	N/A	N/A	N/A	N/A	32
N/A	N/A	N/A	N/A	N/A	N/A	32
N/A	N/A	Underperf' Deadband	N/A	Underperf' Payment	(0.2140)	42
N/A	N/A	Outperf' Payment	2.1760	Outperf' Payment	2.3800	28
N/A	N/A	Outperf' Payment	0.1380	Underperf' Payment	(0.1120)	28
N/A	N/A	Underperf' Payment	(0.0468)	Outperf' Payment	0.7192	28
N/A	N/A	N/A	N/A	N/A	N/A	29
N/A	N/A	N/A	N/A	N/A	N/A	29
N/A	N/A	N/A	N/A	N/A	N/A	29
Underperf' Payment	(0.1173)	N/A	N/A	Underperf' Payment	(0.4387)	21
N/A	N/A	N/A	N/A	N/A	N/A	30
N/A	N/A	N/A	N/A	N/A	N/A	30
N/A	N/A	N/A	N/A	N/A	N/A	30
Underperf' Deadband	N/A	N/A	N/A	Underperf' Payment	(2.7680)	31
Underperf' Payment	(0.7720)	N/A	N/A	Underperf' Payment	(1.5659)	31
N/A	N/A	N/A	N/A	N/A	N/A	32
N/A	N/A	N/A	N/A	N/A	N/A	32
N/A	N/A	Outperf' Payment	0.7470	Outperf' Payment	7.4700	36
N/A	N/A	N/A	N/A	N/A	N/A	*
N/A	N/A	N/A	N/A	N/A	N/A	36
N/A	N/A	N/A	N/A	N/A	N/A	20
N/A	N/A	N/A	N/A	N/A	N/A	20
N/A	N/A	N/A	N/A	N/A	N/A	20
N/A	N/A	N/A	N/A	N/A	N/A	42

Total AMP6 forecast at March 2020 reflects the cumulative rewards and penalties achieved in the first four years of the regulatory period. Of the £11.3m cumulative reward, £3.1m net penalty may be reflected in the period and £14.4m net reward recognised at the end of the period. Forecasts for the remaining year have not been included, however South West Water remains on track to deliver 2020 targets and is focused on delivering improvements for customers and the environment.

## Performance summary continued

**TABLE 3A – Outcome performance table for Bournemouth Water  
(2012/13 price base)**

	Units	2018/19 performance level – actual	2018/19 PCL met?
W-A1 Customer contacts: taste and appearance	nr/1,000 pop	0.71	Yes
W-A2 Water Quality – mean zonal compliance	%	100.00	Yes
W-B1 Reduce leakage	MI/d	18.28	N/A
W-B2 Large scale interruptions	thousands	4.3	N/A
W-B3 Decreasing average interruptions	time	0.7	Yes
W-B4 Maintain serviceable assets	category	Stable	Yes
W-B5 Metering	nr	7,872	N/A
W-B6 Reduce per capita consumption	ml/h/d	151.3	N/A
W-C1 Repairing visible leaks	%	74.0	N/A
W-D1 Reduce energy used in water delivery	kwh/MI	617.73	N/A
W-D2 Supporting a natural water environment	Met/Not met	Met	Yes
W-E1 Contribute to our community	days	44	N/A
R-A1 Service Incentive Mechanism (SIM)	nr	87.6	N/A
R-A2 New customer relationship management system	£m	1.42	N/A
R-B1 Fair customer bills	%	3.25	N/A

2018-19 outperformance payment or underperformance payment – in-period ODIs (indicator)	2018-19 outperformance payment or underperformance payment – in-period ODIs (£m, to 4 dp)	2018-19 outperformance payment or underperformance payment – ODIs payable at the end of AMP6 (indicator)	2018-19 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	N/A	N/A	<b>11</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>10</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>14</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>15</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>16</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>12</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>43</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>16</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>21</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>32</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>33</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>38</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>20</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>20</b>
N/A	N/A	N/A	N/A	N/A	N/A	<b>43</b>

Total AMP6 forecast at March 2020 reflects the cumulative rewards and penalties achieved in the first four years of the regulatory period. Forecasts for the remaining year have not been included, however South West Water remains on track to deliver 2020 targets and is focused on delivering improvements for customers and the environment.

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## Performance summary continued

**TABLE 3B – Sub-measure performance table for South West Water**

	Unit	2018/19 performance level – actual	2018/19 PCL met?
W-A3(i) Asset reliability (pipes) – Total bursts	nr	2,517	Yes
W-A3(ii) Asset reliability (pipes) – Interruptions > 12 hours	nr	471	Yes
W-A3(iii) Asset reliability (pipes) – Iron non-compliance	%	0.20	Yes
W-A3(iv) Asset reliability (pipes) – DG2 Pressure	nr	158	Yes
W-A3(v) Asset reliability (pipes) – Customer contacts – discolouration	nr	1.61	Yes
W-A3(vi) Asset reliability (pipes) – Distribution index TIM	%	0.07	Yes
W-A4(i) Asset reliability (process) – WTW coliforms non-compliance	%	0.03	Yes
W-A4(ii) Asset reliability (process) – Service reservoir coliforms non-compliance	%	0.00	Yes
W-A4(iii) Asset reliability (process) – Turbidity non-compliance	nr	0	Yes
W-A4(iv) Asset reliability (process) – Enforcement incidents	nr	1	Yes
W-A4(v) Asset reliability (process) – Unplanned maintenance	nr	2,607	Yes
S-A4(i) Asset reliability (pipes) – Sewer collapses	nr	170	Yes
S-A4(ii) Asset reliability (pipes) – Pollution incidents (CSO+RM+FS)	nr	107	No
S-A4(iii) Asset reliability (pipes) – Properties flooded due to other causes	nr	55	Yes
S-A4(iv) Asset reliability (pipes) – Properties flooded due to overloaded sewers	nr	1	Yes
S-A4(v) Asset reliability (pipes) – Sewer blockages	nr	3,136	Yes
S-A4(vi) Asset reliability (pipes) – Equipment failures	nr	126	Yes
S-A5(i) Asset reliability – Sewage Treatment works (STW)	%	1.30	Yes
S-A5(ii) Asset reliability – Population equivalent (PE)	%	0.11	Yes
S-A5(iii) Unplanned maintenance	nr	7,073	Yes

**TABLE 3B – Sub-measure performance table for Bournemouth Water**

	Unit	2018/19 performance level – actual	2018/19 PCL met?
Serviceability of assets – infrastructure: Total bursts	nr	228	Yes
Serviceability of assets – infrastructure: Interruptions > 12 hours	nr	0	Yes
Serviceability of assets – infrastructure: Iron non-compliance (as 100-Mean Zonal)	%	0.00	Yes
Serviceability of assets – infrastructure: DG2 pressure	nr	0	Yes
Serviceability of assets – infrastructure: Customer contacts – discolouration	nr	0.22	Yes
Serviceability of assets – non-infrastructure: Water treatment works coliforms non-comp'	%	0.00	Yes
Serviceability of assets – non-infrastructure: Service reservoir coliforms non-compliance	%	0.00	Yes
Serviceability of assets – non-infrastructure: Turbidity	nr	0	Yes
Serviceability of assets – non-infrastructure: Enforcement incidents	nr	0	Yes
Serviceability of assets – non-infrastructure: Unplanned maintenance	nr	124	Yes

**TABLE 3C**

AIM table is not applicable to South West Water Limited in either the original South West Water area or the Bournemouth Water area.



TABLE 3D – SIM table for South West Water

	Units	Score
<b>Qualitative performance</b>		
1st survey score	score	4.49
2nd survey score	score	4.53
3rd survey score	score	4.67
4th survey score	score	4.57
Qualitative SIM score (out of 75)	score	<b>66.75</b>
<b>Quantitative performance</b>		
Total contact score	score	82.66
Quantitative SIM score (out of 25)	calc	<b>20.87</b>
<b>SIM score</b>		
Total annual SIM score (out of 100)	calc	<b>87.62</b>

TABLE 3D – SIM table for Bournemouth Water

	Units	Score
<b>Qualitative performance</b>		
1st survey score	score	4.45
2nd survey score	score	4.27
3rd survey score	score	4.36
4th survey score	score	4.70
Qualitative SIM score (out of 75)	calc	<b>64.31</b>
<b>Quantitative performance</b>		
Total contact score	score	34.82
Quantitative SIM score (out of 25)	calc	<b>23.26</b>
<b>SIM score</b>		
Total annual SIM score (out of 100)	calc	<b>87.57</b>

SIM (Service Incentive Mechanism), an industry-wide measure of customer service, performance has improved in both operational areas. See pages 19 to 20 for further details concerning our customer service performance.

## Performance summary continued

### TABLE 3S – Shadow reporting of new definition data

	Performance level
<b>Leakage (Ml/d)</b>	
South West Water	118.8
<b>Supply interruptions (hours:mins:secs per property per year)</b>	
All supply interruptions > 3 hours	00:07:21
<b>Mains bursts (nr)</b>	
Water mains bursts per 1,000 kilometres of pipe	150.0
<b>Unplanned outage (%)</b>	
Proportion of unplanned outage of the total Company production capacity	1.07%
<b>Per capita consumption (PCC) (litres/person/day)</b>	
Per capita consumption	154
<b>Risk of severe restrictions in a drought (%)</b>	
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	0.00%
<b>Internal sewer flooding incidents (nr)</b>	
Internal sewer flooding incidents, including sewer flooding due to severe weather events	93
<b>External sewer flooding incidents (nr)</b>	
External sewer flooding incidents, including sewer flooding due to severe weather events	1,843
<b>Sewer collapses (nr)</b>	
Sewer collapses per 1,000 kilometres of sewers	19.3
<b>Risk of sewer flooding in a storm (%)</b>	
Percentage of population at risk of sewer flooding in a 1-in-50 year storm	56.02%
<b>Vulnerability (%)</b>	
Percentage of households registered for priority services (as of 31 March)	1.9%
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)	65.0%

## Additional regulatory information

### TABLE 4A – Non-financial information for South West Water

	Current year	
	Unmeasured	Measured
<b>Retail household</b>		
Number of void households (000s)	5.739	4.275
Per capita consumption (excluding supply pipe leakage) l/h/d	212.26	140.34
	Water Ml/d	Wastewater Ml/d
<b>Wholesale volume</b>		
Bulk supply export	0.054	–
Bulk supply import	–	–
Distribution input	466.569	

### TABLE 4A – Non-financial information for Bournemouth Water

	Current year	
	Unmeasured	Measured
<b>Retail household</b>		
Number of void households (000s)	0.401	0.459
Per capita consumption (excluding supply pipe leakage) l/h/d	168.31	143.79
	Water Ml/d	
<b>Wholesale volume</b>		
Bulk supply export	0.963	
Bulk supply import	0.606	
Distribution input	149.960	

Bulk supply exports relate to the supply of treated water to a neighbouring water company.

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## Additional regulatory information continued

### TABLE 4B – Wholesale totex analysis

	Current year		Cumulative 2015-20	
	Water £m	Wastewater £m	Water £m	Wastewater £m
<b>Actual totex</b>				
Actual totex	<b>162.509</b>	<b>167.058</b>	654.209	683.507
<b>Items excluded from the menu</b>				
Third party costs	<b>1.449</b>	<b>1.682</b>	16.523	7.866
Pension deficit recovery payments	<b>5.168</b>	<b>5.418</b>	14.375	12.885
Other 'Rule book' adjustments	<b>1.218</b>	<b>0.806</b>	3.643	5.672
<b>Total items excluded from the menu</b>	<b>7.835</b>	<b>7.906</b>	34.541	26.423
<b>Transition expenditure</b>				
Transition expenditure	–	–	1.614	0.908
<b>Adjusted actual totex</b>				
Adjusted actual totex	<b>154.674</b>	<b>159.152</b>	621.282	657.992
Adjusted actual totex base year prices	<b>133.582</b>	<b>137.449</b>	561.501	595.569
<b>Allowed totex</b>				
Allowed totex based on final menu choice – base year prices (totex for input to PAYG)	<b>154.320</b>	<b>158.743</b>	662.775	720.500

Actual totex in base year prices is calculated using actual average inflation, of 3.1% for 2018/19.

Commentary on the difference between actual totex and that allowed within the 2014 Final Determination is included on page 45.

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	(117.901)	(145.513)
Customer share of cumulative totex over/underspend	(52.327)	(65.335)
RCV element of cumulative totex over/underspend	(50.189)	(74.127)
Adjustment for ODI Outperformance payment or underperformance payment	(2.962)	12.185
RCV determined at FD at 31 March	1,623.019	1,881.662
Projected 'shadow' RCV	<b>1,569.868</b>	<b>1,819.720</b>

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 inflated into outturn prices, based on the rates assumed for RCV at March 2019.

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.

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## Additional regulatory information continued

### TABLE 4D – Wholesale totex analysis – water

	Water resources		Network+				
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
<b>Operating expenditure</b>							
Power	–	2.622	1.558	–	11.283	2.597	<b>18.060</b>
Income treated as negative expenditure	–	(0.594)	(0.028)	–	(0.124)	(0.024)	<b>(0.770)</b>
Abstraction charges/discharge consents	4.666	–	0.217	–	0.105	0.012	<b>5.000</b>
Bulk supply	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>							
– Renewals expensed in year (Infrastructure)	–	–	–	–	–	5.471	<b>5.471</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	0.044	2.885	1.157	0.001	20.276	20.536	<b>44.899</b>
Local authority and Cumulo rates	–	2.124	0.622	–	2.779	16.658	<b>22.183</b>
<b>Total operating expenditure excluding third party services</b>	<b>4.710</b>	<b>7.037</b>	<b>3.526</b>	<b>0.001</b>	<b>34.319</b>	<b>45.250</b>	<b>94.843</b>
Third party services	–	–	–	–	–	1.449	<b>1.449</b>
<b>Total operating expenditure</b>	<b>4.710</b>	<b>7.037</b>	<b>3.526</b>	<b>0.001</b>	<b>34.319</b>	<b>46.699</b>	<b>96.292</b>
<b>Capital expenditure</b>							
Maintaining the long-term capability of the assets – infra	–	0.745	0.237	–	–	11.044	<b>12.026</b>
Maintaining the long-term capability of the assets – non-infra	–	2.368	0.184	–	14.931	18.611	<b>36.094</b>
Other capital expenditure – infra	–	3.082	–	–	0.076	11.610	<b>14.768</b>
Other capital expenditure – non-infra	–	1.511	–	–	5.027	3.671	<b>10.209</b>
Infrastructure network reinforcement	–	–	–	–	–	0.349	<b>0.349</b>
<b>Total gross capital expenditure (excluding third party)</b>	<b>–</b>	<b>7.706</b>	<b>0.421</b>	<b>–</b>	<b>20.034</b>	<b>45.285</b>	<b>73.446</b>
Third party services	–	–	–	–	–	–	<b>–</b>
<b>Total gross capital expenditure</b>	<b>–</b>	<b>7.706</b>	<b>0.421</b>	<b>–</b>	<b>20.034</b>	<b>45.285</b>	<b>73.446</b>
Grants and contributions	–	0.811	–	–	–	11.586	<b>12.397</b>
<b>Totex</b>	<b>4.710</b>	<b>13.932</b>	<b>3.947</b>	<b>0.001</b>	<b>54.353</b>	<b>80.398</b>	<b>157.341</b>
<b>Cash expenditure</b>							
Pension deficit recovery payments	–	0.227	0.159	–	2.193	2.589	<b>5.168</b>
Other cash items	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	<b>4.710</b>	<b>14.159</b>	<b>4.106</b>	<b>0.001</b>	<b>56.546</b>	<b>82.987</b>	<b>162.509</b>

Total capital expenditure is £17.595m lower in 2018/19 (£73.446m) than in 2017/18 (£91.041m) as work on the major new Plymouth Mayflower Water Treatment Works (WTW) reached its final stages. Within these totals, expenditure reported for the water treatment unit has decreased by £26.627m (2018/19 £20.034m, 2017/18 £46.661m) and treated water distribution increased by £4.844m (2018/19 £45.285m, 2017/18 £40.441m). The changes are largely explained by expenditure on Plymouth Mayflower WTW which is mainly allocated to the water treatment business unit.

In accordance with RAG4.08 Appendix 1 expenditure on infrastructure investment related to new connections has been reported as other capital expenditure – infra at line 14 instead of at line 18 – third party services. These costs of £5.113m in 2018/19 (2017/18 £5.076m) were reported at line 18 in 2017/18.

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**  
2018/19 analysis

	Water resources		Network+			
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
<b>Unit cost information (operating expenditure)</b>						
Licensed volume available (MI)	476,666.720					
Volume abstracted (MI)		238,881.769				
Volume transported (MI)			238,881.769			
Average volume stored (MI)				1,011.000		
Distribution input volume – water treatment MI					225,032.694	
Distribution input volume – treated water MI						225,032.694
<b>Unit cost (£/MI)</b>	<b>9.881</b>	<b>29.458</b>	<b>14.760</b>	<b>0.989</b>	<b>150.507</b>	<b>207.521</b>
Population (000s)	2,202,668	2,202,668	2,202,668	2,202,668	2,202,668	2,202,668
<b>Unit cost (£/pop)</b>	<b>2.138</b>	<b>3.195</b>	<b>1.601</b>	<b>–</b>	<b>15.581</b>	<b>21.201</b>

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### TABLE 4E – Wholesale totex analysis – wastewater

	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	Total £m
<b>Operating expenditure</b>									
Power	4,460	1,174	0,237	10,062	1,451	–	1,280	0,002	<b>18,666</b>
Income treated as negative expenditure	–	–	–	–	–	–	(0,309)	–	<b>(0,309)</b>
Discharge consents	0,972	0,256	–	2,740	–	–	–	–	<b>3,968</b>
Bulk discharge	–	–	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>									
– Renewals expensed in year (Infrastructure)	8,076	2,126	0,428	–	–	–	–	–	<b>10,630</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	9,033	2,378	0,479	26,092	0,268	3,395	6,207	3,268	<b>51,120</b>
Local authority rates and Cumulo rates	0,110	0,029	–	5,313	–	–	0,761	–	<b>6,213</b>
<b>Total operating expenditure excluding third party services</b>	<b>22,651</b>	<b>5,963</b>	<b>1,144</b>	<b>44,207</b>	<b>1,719</b>	<b>3,395</b>	<b>7,939</b>	<b>3,270</b>	<b>90,288</b>
Third party services	1,331	0,351	–	–	–	–	–	–	<b>1,682</b>
<b>Total operating expenditure</b>	<b>23,982</b>	<b>6,314</b>	<b>1,144</b>	<b>44,207</b>	<b>1,719</b>	<b>3,395</b>	<b>7,939</b>	<b>3,270</b>	<b>91,970</b>
<b>Capital expenditure</b>									
Maintaining the long-term capability of the assets – infra	6,419	1,690	0,288	–	–	–	–	–	<b>8,397</b>
Maintaining the long-term capability of the assets – non-infra	6,415	1,689	0,288	20,650	0,801	–	5,059	–	<b>34,902</b>
Other capital expenditure – infra	13,893	3,658	0,622	0,102	0,004	–	–	–	<b>18,279</b>
Other capital expenditure – non-infra	1,815	0,478	0,082	8,962	0,348	–	–	–	<b>11,685</b>
Infrastructure network reinforcement	3,073	0,809	0,140	–	–	–	–	–	<b>4,022</b>
<b>Total gross capital expenditure (excluding third party services)</b>	<b>31,615</b>	<b>8,324</b>	<b>1,420</b>	<b>29,714</b>	<b>1,153</b>	<b>–</b>	<b>5,059</b>	<b>–</b>	<b>77,285</b>
Third party services	–	–	–	–	–	–	–	–	<b>–</b>
<b>Total gross capital expenditure</b>	<b>31,615</b>	<b>8,324</b>	<b>1,420</b>	<b>29,714</b>	<b>1,153</b>	<b>–</b>	<b>5,059</b>	<b>–</b>	<b>77,285</b>
Grants and contributions	5,820	1,533	0,262	–	–	–	–	–	<b>7,615</b>
<b>Totex</b>	<b>49,777</b>	<b>13,105</b>	<b>2,302</b>	<b>73,921</b>	<b>2,872</b>	<b>3,395</b>	<b>12,998</b>	<b>3,270</b>	<b>161,640</b>
<b>Cash expenditure</b>									
Pension deficit recovery payments	1,140	0,300	0,054	2,911	0,113	–	0,812	0,088	<b>5,418</b>
Other cash items	–	–	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	<b>50,917</b>	<b>13,405</b>	<b>2,356</b>	<b>76,832</b>	<b>2,985</b>	<b>3,395</b>	<b>13,810</b>	<b>3,358</b>	<b>167,058</b>

TABLE 4E – Wholesale totex analysis – wastewater continued

	Sewage collection			Sewage treatment		Sludge		
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m
<b>Unit cost information (operating expenditure)</b>								
Volume collected – foul (MI)	90,301.000							
Volume collected – surface water drainage (MI)		64,327.194						
Volume collected – highway drainage (MI)			56,816.301					
BOD <sup>1</sup> – sewage treatment and disposal (tonnes)				38,911.720				
BOD <sup>1</sup> – imported sludge liquor treatment (tonnes)					563.885			
Volume transported – sludge transport (m <sup>3</sup> )						347,416.830		
Dried solid mass treated – sludge treatment (ttds)							38,304.370	
Dried solid mass disposed – sludge disposal (ttds)								43,999.875
<b>Unit cost (£/unit)</b>	<b>265.578</b>	<b>98.154</b>	<b>20.135</b>	<b>1,136.084</b>	<b>3,048.494</b>	<b>9.772</b>	<b>207.261</b>	<b>74.318</b>
Population (000s)	1,722.463	1,722.463	1,722.463	1,722.463	1,722.463	1,722.463	1,722.463	1,722.463
<b>Unit cost (£/pop)</b>	<b>13.923</b>	<b>3.666</b>	<b>0.664</b>	<b>25.665</b>	<b>0.998</b>	<b>1.971</b>	<b>4.609</b>	<b>1.898</b>

1 Biochemical Oxygen Demand.

The reduction in sewage collection capital expenditure between 2017/18 and 2018/19 is attributable to the completion of high-value bathing waters projects in Plymouth where expenditure was largely incurred in 2017/18. There have been small increases in both sewage treatment and sludge treatment expenditure which largely relate to the continuing programmes of capital maintenance investment. The main wastewater enhancement projects were partly advanced into the early years of the 2015-20 regulatory period to obtain early benefits from the relevant 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
<b>Operating expenditure</b>									
Customer services	0.884	0.023	1.072	<b>1.979</b>	1.772	0.027	6.139	<b>7.938</b>	<b>9.917</b>
Debt management	0.223	0.006	0.271	<b>0.500</b>	0.447	0.007	1.549	<b>2.003</b>	<b>2.503</b>
Doubtful debts	0.712	0.019	0.863	<b>1.594</b>	1.428	0.022	4.943	<b>6.393</b>	<b>7.987</b>
Meter reading					0.163	0.002	0.563	<b>0.728</b>	<b>0.728</b>
Other operating expenditure	0.395	0.010	0.479	<b>0.884</b>	0.792	0.012	2.744	<b>3.548</b>	<b>4.432</b>
Total operating expenditure excluding third party services	2.214	0.058	2.685	<b>4.957</b>	4.602	0.070	15.938	<b>20.610</b>	<b>25.567</b>
Third party services operating expenditure	–	–	–	<b>–</b>	0.001	–	0.002	<b>0.003</b>	<b>0.003</b>
<b>Total operating expenditure</b>	<b>2.214</b>	<b>0.058</b>	<b>2.685</b>	<b>4.957</b>	<b>4.603</b>	<b>0.070</b>	<b>15.940</b>	<b>20.613</b>	<b>25.570</b>
Depreciation – tangible fixed assets									
– on assets existing at 31 March 2015	0.058	0.002	0.071	<b>0.131</b>	0.117	0.002	0.404	<b>0.523</b>	<b>0.654</b>
– on assets acquired since 1 April 2015	0.101	0.003	0.123	<b>0.227</b>	0.203	0.003	0.705	<b>0.911</b>	<b>1.138</b>
Amortisation – intangible fixed assets									
– on assets existing at 31 March 2015	0.030	0.001	0.036	<b>0.067</b>	0.060	0.001	0.207	<b>0.268</b>	<b>0.335</b>
– on assets acquired since 1 April 2015	0.001	–	0.001	<b>0.002</b>	0.002	–	0.007	<b>0.009</b>	<b>0.011</b>
<b>Total operating costs</b>	<b>2.404</b>	<b>0.064</b>	<b>2.916</b>	<b>5.384</b>	<b>4.985</b>	<b>0.076</b>	<b>17.263</b>	<b>22.324</b>	<b>27.708</b>
<b>Capital expenditure</b>	<b>0.094</b>	<b>0.002</b>	<b>0.114</b>	<b>0.210</b>	<b>0.188</b>	<b>0.003</b>	<b>0.651</b>	<b>0.842</b>	<b>1.052</b>

Operating costs per customer type were allocated based on the number of customers within each type.

	Total £m
<b>Demand-side efficiency and customer-side leaks analysis – household</b>	
Demand-side water efficiency – gross expenditure	<b>0.071</b>
Demand-side water efficiency – expenditure funded by wholesale	<b>–</b>
<b>Demand-side water efficiency – net retail expenditure</b>	<b>0.071</b>
Customer-side leak repairs – gross expenditure	<b>0.001</b>
Customer-side leak repairs – expenditure funded by wholesale	<b>–</b>
<b>Customer-side leak repairs – net retail expenditure</b>	<b>0.001</b>



**TABLE 4G – Wholesale current cost financial performance**

	Water £m	Wastewater £m	Total £m
Revenue	242.966	279.395	<b>522.361</b>
Operating expenditure	(96.292)	(91.970)	<b>(188.262)</b>
Capital maintenance charges	(67.805)	(103.772)	<b>(171.577)</b>
Other operating income	1.625	0.066	<b>1.691</b>
<b>Current cost operating profit</b>	<b>80.494</b>	<b>83.719</b>	<b>164.213</b>
Other income	8.343	5.009	<b>13.352</b>
Interest income	1.037	1.210	<b>2.247</b>
Interest expense	(34.546)	(40.342)	<b>(74.888)</b>
Other interest expense	(0.424)	(0.387)	<b>(0.811)</b>
<b>Current cost profit before tax and fair value movements</b>	<b>54.904</b>	<b>49.209</b>	<b>104.113</b>
Fair value gains/(losses) on financial instruments	–	–	–
<b>Current cost profit before tax</b>	<b>54.904</b>	<b>49.209</b>	<b>104.113</b>

The Company does not have any financial instruments accounted for at fair value through the income statement.

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### TABLE 4H – Financial metrics

	Metric £m	AMP to date
<b>Financial indicators</b>		
Net debt	<b>2,065.511</b>	
Regulated equity	<b>1,439.170</b>	
Regulated gearing (%)	<b>58.94</b>	
Post tax return on regulated equity (%)	<b>10.47</b>	
RoRE (return on regulated equity) (%)	<b>11.75</b>	11.53
Dividend yield (%)	<b>8.54</b>	
Retail profit margin – household (%)	<b>2.83</b>	
Retail profit margin – non-household (%)	<b>n/a</b>	
Credit rating	<b>n/a</b>	
Return on RCV (%)	<b>6.34</b>	
Dividend cover (dec)	<b>1.19</b>	
Funds from operations (FFO)	<b>279.692</b>	
Interest cover (cash) (dec)	<b>6.01</b>	
Adjusted interest cover (cash) (dec)	<b>3.24</b>	
FFO/debt (dec)	<b>0.14</b>	
Effective tax rate (%)	<b>18.31</b>	
Free cash flow (RCF)	<b>156.592</b>	
RCF/capex (dec)	<b>1.14</b>	
<b>Revenue and earnings</b>		
Revenue (actual)	<b>558.151</b>	
EBITDA (actual)	<b>344.319</b>	

South West Water does not have a credit rating as this is not a licence requirement.

TABLE 4H – Financial metrics continued

Movement in RoRE	Metric %	AMP to date
Base return	5.78	5.90
Totex out/(under) performance	1.79	2.28
Retail cost out/(under) performance	0.65	0.25
ODI out/(under) performance	0.35	0.29
Financing out/(under) performance	3.18	2.81
Other factors	0.00	0.00
Regulatory return for the year	11.75	11.53
	%	
<b>Borrowings</b>		
Proportion of borrowings which are fixed rate	58.44	
Proportion of borrowings which are floating rate	19.94	
Proportion of borrowings which are index linked	21.62	
Proportion of borrowings due within 1 year or less	3.67	
Proportion of borrowings due in more than 1 year but no more than 2 years	2.22	
Proportion of borrowings due in more than 2 years but no more than 5 years	10.75	
Proportion of borrowings due in more than 5 years but no more than 20 years	40.96	
Proportion of borrowings due in more than 20 years	42.40	

TABLE 4I – Financial derivatives

Derivative type	Nominal value by maturity (net)			Nominal value (net) £m	Total value		Interest rate (weighted average)	
	1 to 2 years £m	2 to 5 years £m	Over 5 years £m		Mark to market £m	Total accretion £m	Payable %	Receivable %
<b>Interest rate swap (sterling)</b>								
Floating to fixed rate	(8.811)	(0.505)	(10.095)	(19.411)	(19.411)	–	1.85	0.80
<b>Total</b>	(8.811)	(0.505)	(10.095)	(19.411)	(19.411)	–	–	–
<b>Total financial derivatives</b>	<b>(8.811)</b>	<b>(0.505)</b>	<b>(10.095)</b>	<b>(19.411)</b>	<b>(19.411)</b>	<b>–</b>	<b>–</b>	<b>–</b>

South West Water has interest rate swaps which are used to swap fixed and floating rate debt. No swaps are made on index-linked debt or using index-linked swaps.

South West Water also has limited forward currency contracts used to fix the cost of certain purchases in respect of capital projects.

The table above has been compiled on the basis of swap value and maturity, rather than the underlying debt instrument.

The total swap value of £19.411m above excludes accrued interest charges of £0.632m resulting in a total financial instrument liability of £20.043m.

## Additional regulatory information continued

### Table 4J – Atypical and non-atypical expenditure by business unit – wholesale water

	Water resources		Network+				
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
<b>Operating expenditure (excl. atypicals)</b>							
Power	–	2,622	1,558	–	11,283	2,597	<b>18,060</b>
Income treated as negative expenditure	–	(0,594)	(0,028)	–	(0,124)	(0,024)	<b>(0,770)</b>
Abstraction charges/discharge consents	4,666	–	0,217	–	0,105	0,012	<b>5,000</b>
Bulk supply	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>							
– Renewals expensed in year (Infrastructure)	–	–	–	–	–	5,471	<b>5,471</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	0,044	2,847	1,133	0,001	19,998	20,181	<b>44,204</b>
Local authority and Cumulo rates	–	2,124	0,622	–	2,779	16,658	<b>22,183</b>
Total operating expenditure excluding third party services	4,710	6,999	3,502	0,001	34,041	44,895	<b>94,148</b>
Third party services	–	–	–	–	–	1,449	<b>1,449</b>
Total operating expenditure	4,710	6,999	3,502	0,001	34,041	46,344	<b>95,597</b>
<b>Capital expenditure (excl. atypicals)</b>							
Maintaining the long-term capability of the assets – infra	–	0,745	0,237	–	–	11,044	<b>12,026</b>
Maintaining the long-term capability of the assets – non-infra	–	2,368	0,184	–	14,931	18,611	<b>36,094</b>
Other capital expenditure – infra	–	3,082	–	–	0,076	11,610	<b>14,768</b>
Other capital expenditure – non-infra	–	1,511	–	–	5,027	3,671	<b>10,209</b>
Infrastructure network reinforcement	–	–	–	–	–	0,349	<b>0,349</b>
<b>Total gross capital expenditure (excluding third party)</b>	–	7,706	0,421	–	20,034	45,285	<b>73,446</b>
Third party services	–	–	–	–	–	–	<b>–</b>
<b>Total gross capital expenditure</b>	–	7,706	0,421	–	20,034	45,285	<b>73,446</b>
Grants and contributions	–	0,811	–	–	–	11,586	<b>12,397</b>
<b>Totex</b>	4,710	13,894	3,923	0,001	54,075	80,043	<b>156,646</b>
<b>Cash expenditure (excl. atypicals)</b>							
Pension deficit recovery payments	–	0,227	0,159	–	2,193	2,589	<b>5,168</b>
Other cash items	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	4,710	14,121	4,082	0,001	56,268	82,632	<b>161,814</b>
Atypical expenditure <sup>1</sup>	0,000	0,038	0,024	0,000	0,278	0,355	<b>0,695</b>
<b>Total expenditure</b>	4,710	14,159	4,106	0,001	56,546	82,987	<b>162,509</b>

<sup>1</sup> Statutory operating costs include a provision of £1.9 million relating to the equalisation of benefits under the Guaranteed Minimum Pension ruling which was classified as an exceptional item in the statutory accounts and therefore an 'Atypical' item in the Regulatory Accounts. £0.7m of this value has been allocated to the Water revenue control.

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	
<b>Operating expenditure (excl. atypicals)</b>									
Power	4.460	1.174	0.237	10.062	1.451	–	1.280	0.002	<b>18666</b>
Income treated as negative expenditure	–	–	–	–	–	–	(0.309)	–	<b>(0.309)</b>
Discharge consents	0.972	0.256	–	2.740	–	–	–	–	<b>3.968</b>
Bulk discharge	–	–	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>									
– Renewals expensed in year (Infrastructure)	8.076	2.126	0.428	–	–	–	–	–	<b>10.630</b>
– Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	<b>–</b>
– Other operating expenditure excluding renewals	8.904	2.344	0.472	25.644	0.268	3.395	6.089	3.259	<b>50.375</b>
Local authority and Cumulo rates	0.110	0.029	–	5.313	–	–	0.761	–	<b>6.213</b>
Total operating expenditure excluding third party services	22.522	5.929	1.137	43.759	1.719	3.395	7.821	3.261	<b>89.543</b>
Third party services	1.331	0.351	–	–	–	–	–	–	<b>1.682</b>
Total operating expenditure	23.853	6.280	1.137	43.759	1.719	3.395	7.821	3.261	<b>91.225</b>
<b>Capital expenditure (excl. atypicals)</b>									
Maintaining the long-term capability of the assets – infra	6.419	1.690	0.288	–	–	–	–	–	<b>8.397</b>
Maintaining the long-term capability of the assets – non-infra	6.415	1.689	0.288	20.650	0.801	–	5.059	–	<b>34.902</b>
Other capital expenditure – infra	13.893	3.658	0.622	0.102	0.004	–	–	–	<b>18.279</b>
Other capital expenditure – non-infra	1.815	0.478	0.082	8.962	0.348	–	–	–	<b>11.685</b>
Infrastructure network reinforcement	3.073	0.809	0.140	–	–	–	–	–	<b>4.022</b>
<b>Total gross capital expenditure (excluding third party)</b>	31.615	8.324	1.420	29.714	1.153	–	5.059	–	<b>77.285</b>
Third party services	–	–	–	–	–	–	–	–	<b>–</b>
<b>Total gross capital expenditure</b>	31.615	8.324	1.420	29.714	1.153	–	5.059	–	<b>77.285</b>
Grants and contributions	5.820	1.553	0.262	–	–	–	–	–	<b>7.615</b>
<b>Totex</b>	49.648	13.071	2.295	73.473	2.872	3.395	12.880	3.261	<b>160.895</b>
<b>Cash expenditure (excl. atypicals)</b>									
Pension deficit recovery payments	1.140	0.300	0.054	2.911	0.113	–	0.812	0.088	<b>5.418</b>
Other cash items	–	–	–	–	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	50.788	13.371	2.349	76.384	2.985	3.395	13.692	3.349	<b>166.313</b>
Atypical expenditure <sup>1</sup>	0.129	0.034	0.007	0.448	0.000	0.000	0.118	0.009	<b>0.745</b>
<b>Total expenditure</b>	50.917	13.405	2.356	76.832	2.985	3.395	13.810	3.358	<b>167.058</b>

<sup>1</sup> Statutory operating costs include a provision of £1.9 million relating to the equalisation of benefits under the Guaranteed Minimum Pension ruling which was classified as an exceptional item in the statutory accounts and therefore an 'Atypical' item in the Regulatory Accounts. £0.7m of this value has been allocated to the Wastewater revenue control.



## Additional regulatory information continued

### TABLE 4L – Enhancement capital expenditure by purpose – wholesale water

	Expenditure in report year						
	Water resources		Network+				
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Enhancement capital expenditure by purpose							
Making ecological improvements at abstractions (habitats directive, SSSI, BAPs)	–	0.704	–	–	–	–	0.704
Supply side enhancements to the supply/demand balance (dry year annual average conditions)	–	0.179	–	–	–	0.059	0.238
NEP – Invasive Non Native Species							
New developments	–	–	–	–	–	4.712	4.712
New connection element of new development (CPs, meters)	–	–	–	–	–	5.259	5.259
Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	–	–	–	–	2.232	0.042	2.274
Resilience	–	–	–	–	–	0.154	0.154
SEMD	–	–	–	–	0.069	0.511	0.580
Metering (excluding cost of providing metering to new service connections)	–	–	–	–	–	2.759	2.759
Management and general investment	–	0.336	–	–	0.433	1.310	2.079
New WTWs including North Plymouth, Mayflower WTW	–	–	–	–	3.089	0.824	3.913
Catchment management	–	3.374	–	–	–	–	3.374
Total enhancement capital expenditure	–	4.593	–	–	5.103	15.630	25.326

**TABLE 4L – Enhancement capital expenditure by purpose – wholesale water**  
continued

	Cumulative expenditure on schemes completed in the report year						
	Water resources		Network+				
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Enhancement capital expenditure by purpose							
Making ecological improvements at abstractions (habitats directive, SSSI, BAPs)	–	0.704	–	–	–	–	0.704
Supply side enhancements to the supply/demand balance (dry year annual average conditions)	–	0.179	–	–	–	0.059	0.238
New developments	–	–	–	–	–	4.712	4.712
New connection element of new development (CPs, meters)	–	–	–	–	–	5.259	5.259
Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	–	–	–	–	6.122	–	6.122
Resilience	–	–	–	–	–	–	–
SEMD	–	–	–	–	0.069	0.511	0.580
Metering (excluding cost of providing metering to new service connections)	–	–	–	–	–	2.759	2.759
Management and general investment	–	–	–	–	–	–	–
New WTW North Plymouth, Mayflower WTW	–	–	–	–	–	–	–
Catchment management	–	3.374	–	–	–	–	3.374
Total enhancement capital expenditure	–	4.257	–	–	6.191	13.300	23.748

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.

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**TABLE 4M – Enhancement capital expenditure by purpose – wholesale wastewater**

	Expenditure in report year								
	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	Total £m
Enhancement capital expenditure by purpose									
First time sewerage	0.189	0.050	0.008	–	–	–	–	–	0.247
NEP – Event Duration Monitoring at intermittent discharges	0.936	0.246	0.042	–	–	–	–	–	1.224
NEP – Nutrients (P removal at filter bed STWs)	–	–	–	4.849	0.188	–	–	–	5.037
New development and growth	4.079	1.074	0.183	–	–	–	–	–	5.336
Growth at sewage treatment works (excluding sludge treatment)	–	–	–	2.501	0.097	–	–	–	2.598
Reduce flooding risk for properties	4.427	1.166	0.199	–	–	–	–	–	5.792
Transferred private sewers and pumping stations	1.599	0.421	0.072	–	–	–	–	–	2.092
Bathing waters additional requirements	3.970	1.045	0.178	–	–	–	–	–	5.193
Cranbrook and Sherford developments (new towns)	0.426	0.112	0.019	–	–	–	–	–	0.557
Downstream thinking	2.160	0.569	0.097	0.645	0.025	–	–	–	3.496
Management and general	0.995	0.262	0.046	1.069	0.042	–	–	–	2.414
Total enhancement capital expenditure	18.781	4.945	0.844	9.064	0.352	–	–	–	33.986

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	0.189	0.050	0.008	–	–	–	–	–	0.247
NEP – Event Duration Monitoring									
at intermittent discharges	0.936	0.246	0.042	–	–	–	–	–	1.224
NEP – Nutrients (P removal at filter bed STWs)	–	–	–	–	–	–	–	–	–
New development and growth	4.080	1.074	0.183	–	–	–	–	–	5.337
Growth at sewage treatment works									
(excluding sludge treatment)	–	–	–	–	–	–	–	–	–
Reduce flooding risk for properties	4.427	1.379	0.198	–	–	–	–	–	6.004
Transferred private sewers and pumping stations	1.599	0.421	0.072	–	–	–	–	–	2.092
Bathing waters additional requirements	13.860	3.649	0.621	–	–	–	–	–	18.130
Cranbrook and Sherford developments									
(new towns)	–	–	–	–	–	–	–	–	–
Downstream thinking	–	–	–	–	–	–	–	–	–
Management and general	–	–	–	–	–	–	–	–	–
Total enhancement capital expenditure	25.091	6.819	1.124	–	–	–	–	–	33.034

**TABLE 4N – Operating expenditure – sewage treatment**

	Network+ £k	Total £k
<b>Costs of STWs in size bands 1 to 5</b>		
Direct costs of STWs in size band 1	2,843.493	<b>2,843.493</b>
Direct costs of STWs in size band 2	2,214.478	<b>2,214.478</b>
Direct costs of STWs in size band 3	4,767.173	<b>4,767.173</b>
Direct costs of STWs in size band 4	7,567.916	<b>7,567.916</b>
Direct costs of STWs in size band 5	4,621.866	<b>4,621.866</b>
General & support costs of STWs in size bands 1 to 5	3,423.030	<b>3,423.030</b>
Functional expenditure of STWs in size bands 1 to 5	25,437.956	<b>25,437.956</b>
<b>Costs of STWs in size band 6</b>		
Service charges for STWs in size band 6	372.000	<b>372.000</b>
Estimated terminal pumping costs size band 6 works	926.000	<b>926.000</b>
Other direct costs of STWs in size band 6	11,754.000	<b>11,754.000</b>
Direct costs of STWs in size band 6	13,052.000	<b>13,052.000</b>
General & support costs of STWs in size band 6	2,026.000	<b>2,026.000</b>
Functional expenditure of STWs in size band 6	15,078.000	<b>15,078.000</b>
<b>Total functional expenditure for sewage treatment</b>	<b>40,515.956</b>	<b>40,515.956</b>

This table shows sewage treatment expenditure by size band. 2018/19 values reflect RAG 4.08 excluding both third party costs and local authority rates.

## Additional regulatory information continued

### TABLE 4O – Wholesale wastewater service – large sewage treatment works

	Units	Barnstaple (Ashford)	Newton Abbot (Buckland)	Torbay (Brokenbury Quarry)	Camborne	Bideford (Cornborough)
<b>Sewage treatment works – Explanatory variables</b>						
Classification of treatment works	text	TA2	SAS	TA2	SAS	TA2
Population equivalent of total load received	000	48.21	78.91	149.71	56.98	44.28
Suspended solids consent	mg/l	45	60	60	250	60
BOD <sub>5</sub> 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 <sup>2</sup>	27	n/a	24	n/a	16
Load received by STW	kgBOD <sub>5</sub> /d	2,893	4,735	8,982	3,419	2,657
Flow passed to Full Treatment	m <sup>3</sup> /d	15,503	24,974	47,097	17,415	14,153
<b>Sewage treatment works – Functional expenditure</b>						
Service charges	£000	19	19	32	32	17
Estimated terminal pumping expenditure	£000	–	–	456	103	–
Other direct expenditure	£000	901	515	1,639	303	207
Total direct expenditure	£000	920	534	2,127	438	224
General and support expenditure	£000	143	83	331	68	35
Functional expenditure	£000	1,063	617	2,458	506	259

Plymouth (Radford) has been added to table 4O for 2018/19 as it now meets the criteria of a large sewage treatment works as defined in RAG 4.08.



											Overview
Exeter (Countess Wear)	Plymouth (Camels Head)	Exmouth (Maer Lane)	Plymouth (Central)	Falmouth	Hayle	Plymouth (Ernesettle)	Plympton (Marsh Mills)	Truro (Newham)	Plymouth (Radford)	Newquay	
TA2	TA2	TA2	TA2	TA2	SB	TB2	TA2	TA2	SA	TA2	Operational performance
159.81	51.73	47.81	110.87	40.17	62.27	62.25	63.06	28.05	25.87	35.88	
25	30	60	60	15	150	60	20	30	30	60	
15	20	25	25	20	25	25	10	20	20	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	
30	30	43	54	42	n/a	33	n/a	33	n/a	24	
9,589	3,104	2,869	6,652	2,410	3,736	3,735	3,784	1,683	1,552	2,153	
45,700	14,593	13,562	37,547	10,550	26,931	20,204	18,035	10,777	5,251	10,136	
34	20	19	32	19	34	20	19	19	20	17	Regulatory reporting
–	62	–	305	–	–	–	–	–	–	–	
1,350	620	497	2,031	516	1,142	418	517	388	207	503	
1,384	702	516	2,368	535	1,176	438	536	407	227	520	
213	109	80	368	83	183	68	83	63	35	81	
1,597	811	596	2,736	618	1,359	506	619	470	262	601	

## Additional regulatory information continued

### TABLE 4P – Non-financial data for WR, WT and WD – wholesale water

	Units	Input
<b>Water resources</b>		
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.184
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.009
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.719
Proportion of distribution input derived from boreholes, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.089
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	–
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	–
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	17
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	62
Number of reuse schemes	nr	–
Total number of water reservoirs	nr	23
Total capacity of water reservoirs	ML	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	9.61
Average pumping head – raw water transport	m.hd	33.95
Total length of raw and pre-treated (non-potable) water transport mains	km	232.98
Water resources capacity (measured using water resources yield)	ML/d	752.00

	Units	Input	
<b>Water treatment</b>			
Total water treated at all SW simple disinfection works	MI/d	–	Overview
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	222.14	
Total water treated at all SW4 works	MI/d	–	
Total water treated at all SW5 works	MI/d	345.57	
Total water treated at all SW6 works	MI/d	–	Operational performance
Total water treated at all GW simple disinfection works	MI/d	18.53	
Total water treated at all GW1 works	MI/d	–	
Total water treated at all GW2 works	MI/d	1.86	
Total water treated at all GW3 works	MI/d	–	
Total water treated at all GW4 works	MI/d	23.61	
Total water treated at all GW5 works	MI/d	9.84	
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	–	Regulatory reporting
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	3	
Zonal population receiving water treated with orthophosphate	nr	1,349,599	
Average pumping head – water treatment	m.hd	8.44	

## Additional regulatory information continued

**TABLE 4P – Non-financial data for WR, WT and WD – wholesale water continued**

	Units	Input
<b>Water distribution</b>		
Total length of potable mains as at 31 March	km	18,300.3
Total length of potable mains relined	km	–
Total length of potable mains renewed	km	14.0
Total length of new potable mains	km	60.0
Total length of potable water mains (< ≤320mm)	km	17,241.6
Total length of potable water mains >320mm and ≤ 450mm	km	561.6
Total length of potable water mains >450mm and ≤610mm	km	384.8
Total length of potable water mains > 610mm	km	112.5
Capacity of booster pumping stations	kW	31,952
Capacity of service reservoirs	ML	1,102
Capacity of water towers	ML	9
Distribution input	ML/d	616.53
Water delivered (non-potable)	ML/d	–
Water delivered (potable)	ML/d	532.70
Water delivered (billed measured households)	ML/d	239.44
Water delivered (billed measured non-households)	ML/d	151.78
Total leakage	ML/d	103.64
Distribution losses	ML/d	79.19
Water taken unbilled	ML/d	24.54
Number of lead communication pipes	nr	80,802
Number of galvanised iron communication pipes	nr	122,117
Number of other communication pipes	nr	782,110
Number of booster pumping stations	nr	271
Total number of service reservoirs	nr	313
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	432.2
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	1,587.4
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	4,030.8
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	5,373.9
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	4,275.7
Total length of potable mains laid or structurally refurbished post 2001	km	2,354.4
Average pumping head – treated water distribution	m.hd	90.73
<b>Band Disclosure (nr)</b>		
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	–
<b>Band Disclosure (%)</b>		
Proportion of Total DI band 1	%	0.1
Proportion of Total DI band 2	%	1.1
Proportion of Total DI band 3	%	0.5
Proportion of Total DI band 4	%	15.1
Proportion of Total DI band 5	%	17.1
Proportion of Total DI band 6	%	18.6
Proportion of Total DI band 7	%	47.5
Proportion of Total DI band 8	%	–

**TABLE 4Q – Non-financial data – Properties, population and other – wholesale water**

	Units	Input
<b>Properties and population</b>		
Residential properties for measured water (external meter)	000s	700.772
Residential properties billed for measured water (not external meter)	000s	65.237
Business properties billed measured water	000s	74.906
Residential properties billed for unmeasured water	000s	189.410
Business properties billed unmeasured water	000s	2.871
Total business connected properties at year end	000s	84.660
Total residential connected properties at year end	000s	969.102
Total connected properties at year end	000s	1053.762
Number of residential meters renewed	000s	4.918
Number of business meters renewed	000s	0.384
Number of meters installed at request of optants	000s	6.861
Number of selective meters installed	000s	0.570
Total number of new business connections	000s	0.777
Total number of new residential connections	000s	8.789
Total population served	000s	2,202.660
Number of business meters (billed properties)	000s	74.906
Number of residential meters (billed properties)	000s	766.009
Company area	km²	11,468
<b>Other</b>		
Number of lead communication pipes replaced for water quality	nr	23
Total supply side enhancements to the supply demand balance (dry year critical/peak conditions)	MI/d	–
Total supply side enhancements to the supply demand balance (dry year annual average conditions)	MI/d	–
Total demand side enhancements to the supply demand balance (dry year critical/peak conditions)	MI/d	–
Total demand side enhancements to the supply demand balance (dry year annual average conditions)	MI/d	–
Energy consumption (i.e. including imports, self generation, excluding exports) – wholesale	MWh	166,937
Energy consumption (i.e. including imports, self generation, excluding exports) – network+	MWh	9,733
Energy consumption (i.e. including imports, self generation, excluding exports) – water resources	MWh	176,670
Mean Zonal Compliance	%	1.00
Compliance Risk Index	nr	1.9
Event Risk Index	nr	500.6
Volume of Leakage above or below the Sustainable Economic Level	MI	(24.344)



## Additional regulatory information continued

**TABLE 4R – Non-financial data – Wastewater network and sludge – wholesale wastewater**

	Units	Input
<b>Wastewater network</b>		
Connectable properties served by s101A schemes completed in the report year	nr	4
Number of s101A schemes completed in the report year	nr	1
Total pumping station capacity	kW	42,630
Number of network pumping stations	nr	1,237
Total number of sewer blockages	nr	7,675
Total number of gravity sewer collapses	nr	326
Total number of sewer rising main bursts/collapses	nr	57
Number of combined sewer overflows	nr	1,209
Number of emergency overflows	nr	234
Number of settled storm overflows	nr	151
Sewer age profile (constructed post 2001)	km	1,148
Volume of trade effluent	MI/yr	2,412.65
Volume of wastewater receiving treatment at sewage treatment works	MI/yr	211,444.50
Length of gravity sewers rehabilitated	km	33
Length of rising mains replaced or structurally refurbished	km	4
Length of foul (only) public sewers	km	2,130
Length of surface water (only) public sewers	km	2,500
Length of combined public sewers	km	5,739
Length of rising mains	km	611
Length of other wastewater network pipework	km	138
Total length of “legacy” public sewers as at 31 March	km	11,118
Length of formerly private sewers and lateral drains (s105A sewers)	km	6,373

	Units	Input
Sludge		
Total sewage sludge produced, treated by incumbents	ttds/year	38.3
Total sewage sludge produced, treated by third party sludge service provider	ttds/year	–
Total sewage sludge produced	ttds/year	38.3
Total sewage sludge produced from non-appointed liquid waste treatment	ttds/year	1
Percentage of sludge produced and treated at a site of STW and STC co-location	%	71.40
Total sewage sludge disposed by incumbents	ttds/year	43.5
Total sewage sludge disposed by third party sludge service provider	ttds/year	0.5
Total sewage sludge disposed	ttds/year	44.0
Total measure of intersiting ‘work’ done by pipeline	ttds*km/year	1
Total measure of intersiting ‘work’ done by tanker	ttds*km/year	376
Total measure of intersiting ‘work’ done by truck	ttds*km/year	90
Total measure of intersiting ‘work’ done (all forms of transportation)	ttds*km/year	468
Total measure of intersiting ‘work’ done by tanker (by volume transported) <sup>1</sup>	m <sup>3</sup> *km/yr	15,437,351
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	1,592
Total measure of ‘work’ done in sludge disposal operations (all forms of transportation)	ttds*km/year	1,592
Total measure of ‘work’ done by tanker in sludge disposal operations (by volume transported)	m <sup>3</sup> *km/yr	–
Chemical P sludge as % of sludge produced at STWs	%	8.96

<sup>1</sup> 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							
		Secondary				Tertiary			
		Primary	Activated sludge	Biological	A1	A2	B1	B2	Total
Load received at sewage treatment works in 2018/19									
Load received by STWs in size band 1	kg BOD <sub>5</sub> /day	119	314	976	68	15	443	26	1,962
Load received by STWs in size band 2	kg BOD <sub>5</sub> /day	–	270	814	154	94	352	159	1,842
Load received by STWs in size band 3	kg BOD <sub>5</sub> /day	161	1,303	1,637	1,083	863	1,174	778	6,998
Load received by STWs in size band 4	kg BOD <sub>5</sub> /day	–	3,070	2,054	1,364	4,525	1,433	4,176	16,621
Load received by STWs in size band 5	kg BOD <sub>5</sub> /day	–	1,956	–	791	5,961	790	5,865	15,362
Load received by STWs above size band 5	kg BOD <sub>5</sub> /day	–	9,775	3,871	–	47,148	–	3,847	64,641
Total load received	kg BOD <sub>5</sub> /day	281	16,687	9,351	3,460	58,604	4,193	14,850	107,427 <sup>1</sup>
Load received from trade effluent customers at treatment works	kg BOD <sub>5</sub> /day								3,815
Number of sewage treatment works at 31 March 2019									
STWs in size band 1	nr	85	44	190	8	1	54	3	385
STWs in size band 2	nr	–	12	34	7	3	15	7	78
STWs in size band 3	nr	2	16	29	15	8	20	10	100
STWs in size band 4	nr	–	10	8	5	14	7	11	55
STWs in size band 5	nr	–	2	–	1	7	1	5	16
STWs above size band 5	nr	–	3	1	–	11	–	1	16
Total number of works	nr	87	87	262	36	44	97	37	650 <sup>1</sup>

1 South West Water has four Fine Screening Plants (Preliminary Treatment Works) which have this year been included within the primary treatment column.

	Units	2018/19
<b>Population equivalent</b>		
Current population equivalent served by STWs	000s	1,651,010
Current population equivalent served by discharge relocation schemes	000s	–
Current population equivalent served by filter bed STWs with tightened/new P consents	000s	–
Current population equivalent served by activated sludge STWs with tightened/new P consents	000s	–
Current population equivalent served by groundwater protection schemes	000s	–
Current population equivalent served by STWs with a Flow1 driver scheme	000s	–
Current population equivalent served by STWs with tightened/new N consents	000s	–
Current population equivalent served by STWs with tightened/new sanitary parameter consents	000s	–
Current population equivalent served by STWs with tightened/new UV consents	000s	–
Population equivalent treatment capacity enhancement	000s	–

## Treatment works consents

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Phosphorus															
<=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
–	–	–	1,962	<b>1,962</b>	–	6	170	306	1,480	<b>1,962</b>	–	–	180	139	1,643
–	–	–	1,842	<b>1,842</b>	17	76	528	1,067	154	<b>1,842</b>	–	43	760	403	636
–	115	–	6,883	<b>6,998</b>	296	544	2,607	3,390	161	<b>6,998</b>	99	580	2,048	958	3,313
–	1,001	–	15,621	<b>16,621</b>	–	707	5,609	10,305	–	<b>16,621</b>	–	288	6,503	3,462	6,369
–	1,459	3,637	10,265	<b>15,362</b>	–	1,472	8,636	5,254	–	<b>15,362</b>	–	1,411	6,618	1,399	5,934
–	–	–	64,641	<b>64,641</b>	–	3,784	18,529	42,328	–	<b>64,641</b>	–	–	15,117	8,604	40,921
–	2,575	3,637	101,214	<b>107,427</b>	313	6,589	36,079	62,650	1,795	<b>107,427</b>	99	2,322	31,225	14,964	58,816
–	–	–	385	<b>385</b>	–	2	15	27	341	<b>385</b>	–	–	16	15	354
–	–	–	78	<b>78</b>	1	3	22	45	7	<b>78</b>	–	2	32	17	27
–	1	–	99	<b>100</b>	4	5	41	48	2	<b>100</b>	1	7	33	13	46
–	3	–	52	<b>55</b>	–	2	17	36	–	<b>55</b>	–	2	18	14	21
–	2	3	11	<b>16</b>	–	2	9	5	–	<b>16</b>	–	1	8	1	6
–	–	–	16	<b>16</b>	–	1	5	10	–	<b>16</b>	–	–	3	3	10
–	6	3	641	<b>650</b>	5	15	109	171	350	<b>650</b>	1	12	110	63	464

## Additional regulatory information continued

### TABLE 4T – Non-financial data – Sludge treatment – wholesale wastewater

	Units	By incumbent	By third party sludge service providers
<b>Sludge treatment process</b>			
% Sludge – untreated	%	0.1	–
% Sludge treatment process – raw sludge liming	%	71.6	–
% Sludge treatment process – conventional AD	%	25.4	–
% Sludge treatment process – advanced AD	%	–	–
% Sludge treatment process – incineration of raw sludge	%	–	0.1
% Sludge treatment process – incineration of digested sludge	%	–	–
% Sludge treatment process – phyto-conditioning/composting	%	2.9	–
% Sludge treatment process – other (specify)	%	–	–
<b>% Sludge treatment process – Total</b>	<b>%</b>	<b>99.9</b>	<b>0.1</b>
<b>(Un-incinerated) sludge disposal route</b>			
% Sludge disposal route – landfill, raw	%	–	–
% Sludge disposal route – landfill, partly treated	%	–	–
% Sludge disposal route – land restoration/reclamation	%	–	1.2
% Sludge disposal route – sludge recycled to farmland	%	98.8	–
% Sludge disposal route – other (specify)	%	–	–
<b>% Sludge disposal route – Total</b>	<b>%</b>	<b>98.8</b>	<b>1.2</b>



**TABLE 4U – Non-financial data – Properties, population and other – wholesale wastewater**

	Units	Input
<b>Properties and population</b>		
Households properties connected during the year	000s	7.222
Non-households properties connected during the year	000s	0.144
Households properties billed unmeasured sewage	000s	106.041
Households properties billed measured sewage	000s	596.995
Households properties billed for sewage	000s	703.037
Non-households properties billed unmeasured sewage	000s	1.734
Non-household properties billed measured sewage	000s	41.072
Non-households properties billed for sewage	000s	42.806
Void properties	000s	12.245
Number of properties	000s	758.087
Resident population	000s	1,583.296
Non-resident population	000s	139.167
<b>Other</b>		
Energy consumption – network plus	MWh	151,372.446
Energy consumption – sludge	MWh	14,511.670
Energy consumption – wholesale	MWh	165,884.116
Population resident in National Parks, SSSIs and Areas of Outstanding Natural Beauty (AONBs)	000	149.676
Total sewerage catchment area	km <sup>2</sup>	850
Designated bathing waters	nr	151
Number of intermittent discharge sites with event duration monitoring	nr	127
Number of monitors for flow monitoring at STWs	nr	–
Number of odour-related complaints	nr	1,047
Volume of storage provided at CSOs, storm tanks, etc. to meet spill frequency requirements	m <sup>3</sup>	–
Total volume of network storage	m <sup>3</sup>	800,189

## 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	0.481	0.023	1.884	0.233	–	–	–	<b>2.622</b>
Income treated as negative expenditure	(0.109)	(0.005)	(0.427)	(0.053)	–	–	–	<b>(0.594)</b>
Abstraction charges/ discharge consents	0.857	0.041	3.353	0.415	–	–	–	<b>4.666</b>
Bulk supply	–	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>								
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	<b>–</b>
Renewals expensed in year (Non- Infrastructure)	–	–	–	–	–	–	–	<b>–</b>
Other operating expenditure excluding renewals – direct	0.264	0.012	1.032	0.128	–	–	–	<b>1.435</b>
Other operating expenditure excluding renewals – indirect	0.274	0.013	1.073	0.133	–	–	–	<b>1.494</b>
<b>Total functional expenditure</b>	1.767	0.084	6.916	0.857	–	–	–	<b>9.623</b>
Local authority and Cumulo rates	0.390	0.018	1.526	0.189	–	–	–	<b>2.124</b>
<b>Total operating expenditure (excluding third party)</b>	2.157	0.102	8.442	1.046	–	–	–	<b>11.747</b>
Depreciation	–	0.653	0.031	2.556	0.317	–	–	<b>3.557</b>
<b>Total operating costs (excluding third party)</b>	2.157	0.755	8.473	3.602	0.317	–	–	<b>15.304</b>

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	0.715	0.317	7.848	7.680	<b>16.560</b>
Employment costs – indirectly allocated	0.696	0.418	2.743	4.351	<b>8.208</b>
Number FTEs consistent with 4V.14 above (Nr)	20	10	193	234	<b>457</b>
Number FTEs consistent with 4V.15 above (Nr)	13	10	48	62	<b>133</b>
Costs associated with Traffic Management Act	–	–	–	–	<b>–</b>
<b>Service charges</b>					
Canal & River Trust abstraction charges/discharge consents	–	–	–	–	<b>–</b>
Environment Agency abstraction charges/discharge consents	4.666	0.217	0.105	0.012	<b>5.000</b>
Other abstraction charges/discharge consents	–	–	–	–	<b>–</b>
Statutory water softening	–	–	–	–	<b>–</b>

In 2018/19 direct employee costs include £0.7m relating to the equalisation of benefits under the Guaranteed Minimum Pension ruling.

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## 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	–	–	–	–
<b>Other operating expenditure</b>				
Renewals expensed in year (Infrastructure)	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–
Other operating expenditure excluding renewals – direct	–	2.746	–	<b>2.746</b>
Other operating expenditure excluding renewals – indirect	–	0.649	–	<b>0.649</b>
<b>Total functional expenditure</b>	–	3.395	–	<b>3.395</b>
Local authority and Cumulo rates	–	–	–	–
<b>Total operating expenditure (excluding 3<sup>rd</sup> party)</b>	–	3.395	–	<b>3.395</b>
Depreciation	–	–	–	–
<b>Total operating costs (excluding 3<sup>rd</sup> party)</b>	–	3.395	–	<b>3.395</b>

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	–	0.918	0.325	–	–	0.036	–	0.001	<b>1.280</b>
Income treated as negative expenditure	–	(0.222)	(0.078)	–	–	(0.009)	–	–	<b>(0.309)</b>
Discharge consents	–	–	–	–	–	–	–	–	–
Bulk supply	–	–	–	–	–	–	–	–	–
<b>Other operating expenditure</b>									
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	–	3.117	1.103	–	–	0.124	–	0.003	<b>4.347</b>
Other operating expenditure excluding renewals – indirect (excluding third party)	–	1.333	0.472	–	–	0.053	–	0.001	<b>1.859</b>
<b>Total functional expenditure</b>	–	5.146	1.822	–	–	0.204	–	0.005	<b>7.177</b>
Local authority and Cumulo rates	–	0.546	0.193	–	–	0.022	–	0.001	<b>0.762</b>
<b>Total operating expenditure (excluding 3<sup>rd</sup> party)</b>	–	5.692	2.015	–	–	0.226	–	0.006	<b>7.939</b>
Depreciation	–	3.847	1.361	–	–	0.153	–	0.004	<b>5.365</b>
<b>Total operating costs (excluding 3<sup>rd</sup> party)</b>	–	9.539	3.376	–	–	0.379	–	0.010	<b>13.304</b>

Sludge disposal route	Landfill, raw	Landfill, partly treated	Land restoration/ reclamation	Sludge recycled to farmland	Other	Total
Power	–	–	–	0.002	–	<b>0.002</b>
Income treated as negative expenditure	–	–	–	–	–	<b>–</b>
Discharge consents	–	–	–	–	–	<b>–</b>
Bulk discharge	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>						
Renewals expensed in year (Infrastructure)	–	–	–	–	–	<b>–</b>
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	<b>–</b>
Other operating expenditure excluding renewals – direct	–	–	0.027	2.564	0.003	<b>2.594</b>
Other operating expenditure excluding renewals – indirect	–	–	0.007	0.666	0.001	<b>0.674</b>
Total functional expenditure	–	–	0.034	3.232	0.004	<b>3.270</b>
Local authority and Cumulo rates	–	–	–	–	–	<b>–</b>
Total operating expenditure (excluding 3 <sup>rd</sup> party)	–	–	0.034	3.232	0.004	<b>3.270</b>
Depreciation	–	–	0.001	0.134	–	<b>0.135</b>
<b>Total operating costs (excluding 3<sup>rd</sup> party)</b>	–	–	0.035	3.366	0.004	<b>3.405</b>

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	5.729	12.990	0.611	<b>19.330</b>
Employment costs – indirectly allocated	0.957	2.444	0.667	<b>4.068</b>
Number FTEs consistent with line 4W.40 above	118	327	127	<b>572</b>
Number FTEs consistent with 4W.41 above	34	69	30	<b>133</b>
Costs associated with Traffic Management Act	–	–	–	<b>–</b>
Costs associated with Industrial Emissions Directive	–	–	–	<b>–</b>
<b>Service charges</b>				
Canal & River Trust service charges discharge consents	–	–	–	<b>–</b>
Environment Agency service charges and discharge consents	1.228	2.740	–	<b>3.968</b>
Other service charges/permits	–	–	–	<b>–</b>

In 2018/19 direct employee costs include £0.7m relating to the equalisation of benefits under the Guaranteed Minimum Pension ruling.

## Cost allocation and transfer pricing

### Transactions with associated companies and the non-appointed business

Under RAG 5.08, 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, whereby certain Directors of the Company have interests.

### South West Water's associated companies

South West Water is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company. A summary Group structure showing principal trading subsidiaries is shown on page 57. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (page 8).

### 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 2018/19 certain further services have been consolidated as shared service functions to enhance both the quality and efficiency of the service.

As a result, there has been an increase in the number of services provided to South West Water by associated companies (primarily Pennon Group plc). There is also a small increase in the number of services provided by South West Water to associated Group companies, where shared services such as Information Services are provided in part by employees of South West Water.

### The non-household retail market

On 1 April 2017, the non-household retail market opened. South West Water exited the provision of retail services to non-household customers, however remains the wholesale supplier of water and wastewater services to end-users in Cornwall, Devon and small parts of Dorset and Somerset as well as providing wholesale water services in parts of Dorset, Hampshire and Wiltshire.

Non-household consumers now pay retailers for their supply and they in turn pay wholesalers based upon the retail charging schedules. Pennon Water Services, a fellow Group company, are a non-household water and wastewater retailer and therefore South West Water are now paid by Pennon Water Services for some of its non-household wholesale services. South West Water also provides meter reading services to Pennon Water Services on commercial terms consistent with those offered to other companies.

South West Water has also contracted with Pennon Water Services to manage a small number of non-regulated activities on its behalf.



## Source Contact Management



### SERVICES PROVIDED BY SOUTH WEST WATER AND RECHARGED TO SOURCE CONTACT MANAGEMENT

SERVICE PROVIDED	SERVICE DETAIL	TURNOVER OF SUBSIDIARY (£M)	TERMS OF SUPPLY	VALUE OF SERVICE PROVIDED (£K)
Management recharges	Information Services recharges	9.765	Recharge based upon employee numbers	392
	Property	9.765	Recharge of property cost based on floor space	348
	Insurance	9.765	Recharge based upon employee numbers	240
	Other	9.765	Recharge of cost incurred	345

### SERVICES RECEIVED BY SOUTH WEST WATER RECHARGED FROM SOURCE CONTACT MANAGEMENT

SERVICE PROVIDED	SERVICE DETAIL	TURNOVER OF SUBSIDIARY (£M)	TERMS OF SUPPLY	VALUE OF SERVICE PROVIDED (£K)
Retail activities	Call centre, billing and collection services, debt recovery and customer service	9.765	Recharge of cost incurred	9,765

## 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	0.198	Recharge of cost incurred	18

### 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	0.198	Market testing – benchmarking	198

## 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	852.675	Market testing – charged at published rates in the South West Water Non-Household Wholesale Charges Scheme	96
Other	Property and Information services	852.675	Recharge of property costs based on floor space and recharge of Information Services costs incurred	4,203

#### 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	852.675	Market testing	275

## 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	20.017	Recharge based upon employee numbers	119
Property	Floor space	20.017	Recharge of property costs based on floor space	315
Other – Communications, HR, Payroll, Facilities	Other internal services provided	20.017	Recharge of salary cost incurred	697

### 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	20.017	Recharge of cost incurred	2,282
	Investor Relations	20.017	Recharge of cost incurred	827
	Legal & Company Secretary	20.017	Recharge of cost incurred	1,628
	Group expenses	20.017	Recharge of cost incurred	1,915
Group Finance	Tax, pension and accounting and internal audit services	20.017	Recharge of employee costs	1,363

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## Cost allocation and transfer pricing continued

### 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	173,697	Markets testing	394
Wholesale charges	Supply of water to wholesale business	173,697	Market testing – charged at published rates in Non-Household Wholesale Charges Scheme and charged via the Market Operator	125,066
Information Services	Information Services recharges	173,697	Recharge based upon employee numbers	132
Property	Floor space	173,697	Recharge of property costs based upon floor space	74
Other recharges	Other recharges including contractor, power and vehicle costs	173,697	Recharge based on actual costs	275

##### 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	173,697	Charges in line with published GSS levels	41

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	1.375	Recharge of insurance premium	474

## Peninsula Leasing

### SERVICES RECEIVED BY SOUTH WEST WATER AND RECHARGED FROM PENINSULA LEASING

SERVICE PROVIDED	SERVICE DETAIL	TURNOVER OF ASSOCIATED COMPANY (£M)	TERMS OF SUPPLY	VALUE OF SERVICE PROVIDED (£K)
Vehicle leasing	Vehicle leasing	40	Recharge of lease costs (including capital repayment)	8.171

## Borrowings with associated companies

ASSOCIATED COMPANY AND TYPE OF BORROWING	PRINCIPAL AMOUNT £K	REPAYMENT DATE	INTEREST RATE
South West Water Finance Plc: Index linked bond 2040	134,188	2040	6.83% (fixed until July 2040)
South West Water Finance Plc: Index linked bond 2057	286,118	2057	RPI + 1.99%
Peninsula Leasing Limited: Finance leases in respect of motor vehicles	157	2018/19 to 2020/21	2.5%

### DIVIDENDS PAID TO SOUTH WEST WATER'S PARENT COMPANY PENNON GROUP PLC

During the year, South West Water paid a total of £123.1m (2017/18 £120.3m) in dividends to its parent company Pennon Group plc.





# South West Water

SOUTH WEST WATER LIMITED

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Registered in England  
No 02366665

