United Utilities Water Limited

Annual Performance Report 2015-16
Including regulatory accounts

United Utilities
helping life flow smoothly

Annual Performance Report 2016

Contents

Annual Performance Report 2016

Introduction

i) Purpose of this report

United Utilities Water Limited (UUW) provides water and wastewater services to seven million customers in the North West of England and undertakes the principal activity of the United Utilities group. UUW is regulated by Ofwat, the economic regulator of the water sector in England and Wales. A key part of this regulatory process is the price review process, where service levels and company revenues are determined for five-year asset management planning (AMP) periods.

The most recent price review process set the price, investment and service package that customers receive for the 2015-2020 period or AMP6.

In high-level overview, the price review processes determine expectations for:

- Customer service and performance standards
- The levels of investment that companies are expected to make to deliver these service standards
- The revenue that the companies will need to recover from customers to finance this expenditure
- The incentive and change control mechanisms that would apply if requirements, performance or expenditure levels varied from the levels assumed in the 2014 price review.

This Annual Performance Report is designed to provide customers and other stakeholders with a view on UUW's performance in the first year of the AMP6 period and our current view of the expected performance for the full five-year period.

The Annual Performance Report

Ofwat set out expectations for company Annual Performance Reporting in 2015/16 in Information Notice 15/18 published in December 2015. In this information notice Ofwat set out that companies are expected to decide how they report on their performance each year, but that there is a requirement to publish common information to allow comparison of companies.

Nature and assurance of our reporting

In June 2015, Ofwat published a company-monitoring framework, which explained the actions that they wanted companies to take in providing information to customers and described how Ofwat plan to oversee this reporting.

Within the framework, Ofwat made a distinction between data assurance activities that water companies put in place to provide accurate data and the broader assurance that they provide to demonstrate that they are listening to customers and delivering services they want and can afford.

Following the price review process Ofwat assessed companies and assigned each of them to one of three categories:

- **Self-assurance** – companies that have consistently met the high standards required by the new framework and - apart from the base requirements that apply to all companies - have discretion in relation to the additional assurance arrangements that they put in place.

- **Targeted assurance** – companies that have not consistently met these high standards and are required to consult with stakeholders to target issues to address and engage with stakeholders before confirming final assurance plans for these targeted areas.
- **Prescribed assurance** – companies that have not provided Ofwat with sufficient confidence about their ability to deliver, monitor and report performance and will have assurance requirements that are prescribed for all information that the company is required to publish, in order to protect customers.

Along with most of the other large regulated water companies in England and Wales, UUW was assessed as being in the targeted assurance category.

In line with the requirements of the company-monitoring framework and our status as a targeted assurance company, the UUW board has taken accountability for both the quality and transparency of the information that UUW provides on its performance. We have also published and consulted on the targeted areas for our reporting and our draft and final assurance plans for this reporting, to ensure that the assurance processes that we have followed are proportionate and transparent.

Coverage and content of our reporting

In Information Notice 15/18, Ofwat set out that as a minimum it expects companies to publish:

- An **Annual Performance Report** which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance;
- A **compliance statement** that the company has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate any risks it faces; and
- A **data assurance summary** of the results of the data assurance that the company has carried out to evidence that the information provided is accurate.

Ofwat also provides more detailed requirements for the coverage and content of UUW's activities and reporting in a series of Regulatory Accounting Guidelines (RAGs) listed below:

RAG 1.06 – Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime.
RAG 2.05 – Guideline for the classification of costs across the price controls
RAG 3.08 – Guidelines for the format and disclosures for the Annual Performance Report
RAG 4.05 – Guideline for the table definitions for the Annual Performance Report
RAG 5.06 – Guideline for transfer pricing

The Ofwat website has further information on the RAGs.

ii) Coverage and structure of the report

Our overall approach to reporting

The Annual Performance Report is one of a number of publications on our website that are designed to ensure that the reporting of the performance of UUW and the wider UU group is reliable, accurate and transparent.

The key report from a group wide and financial perspective being the United Utilities Group PLC annual report and financial statements. This report is designed to provide detailed information on the financial position of the group and is mainly targeted at our equity and debt investors. In addition the United Utilities Water Limited annual report and financial statements provides detailed information on the financial position of UUW and forms the basis of the Regulatory Accounts

Other key performance information is published on our corporate responsibility website. Instead of publishing an annual corporate responsibility report that highlights our key achievements over the preceding year, from 2015 the website communicates our news more regularly. We believe this is an effective and timely way of keeping our customers and stakeholders up to date. The website is designed to describe the way that the group has operated and demonstrate the extent to which we have upheld the highest standards of performance with respect to the way we work with our employees, customers and our impact on the environment.

Our website also contains additional guidance and supporting information for customers, such as how they can contact us and our regulators in relation to a wide range of issues.

The Annual Performance Report complements these publications by providing an in depth review of the performance of UUW relative to the assumptions made in the 2014 price review process (for the 2015-2020 period) and, to some degree, relative to the performance of other regulated water and wastewater businesses.

Supporting publications

The YourVoice panel plays an integral part in monitoring, challenging and reporting on the delivery of the company's 2015-20 business plan commitments to customers and stakeholders. As an independent body of individuals from different sectors, backgrounds and with different areas of expertise, YourVoice looks at how the company can continue to capture and strengthen the views of its customers in its activities. You can read more about the work of the panel at unitedutilities.com/yourvoice.

During 2015/16, we have reported performance to YourVoice on a quarterly basis so the panel can evaluate how we are performing in delivering our commitments to customers. We have sought the panel's views on how we communicate performance to customers and their feedback has helped to shape the document "Our performance 2015-16: a summary guide." This customer-focussed guide has been published alongside this report and provides a succinct and accessible summary of our performance and progress delivering against our promises. Through our ongoing customer engagement we will continue to seek customer views and refine our approach to ensure our performance reporting is as relevant as possible to what customers want to see.

In addition to publishing the minimum information requirements set out by Ofwat, we committed in our business plan to provide regular and transparent reporting on our performance against each measure of success and to update customers and other stakeholders on delivery against our totex (total expenditure) allowance, performance commitments and customer promises.

In addition to this document, we have published a number of documents that are designed to provide a broad range of information at different levels of detail.

This report, the "Annual Performance Report" is one of four main documents published on our website:

Summary Guide	• Provides an overview of our annual performance in line with the five customer promises that underpinned our business plan for the AM6 period.
Annual Performance Report	• The annual performance report is this document, which provides a comprehensive, detailed and assured account of our performance. The information in this report also supports the information in the customer-focussed summary guide .
Outcome definition document	• Provides detailed technical information on the nature, calculations and assumptions underpinning each of the outcomes and performance commitments within these reports.
Upstream services methodology	• Provides methodology and commentary on significant movemnents in our upstream totex reporting.

Coverage of the UUW Annual Performance Report

We have structured our Annual Performance Report to meet Ofwat's expectations and contain a report on performance, a compliance statement and a data assurance summary. The main sections of this report and the coverage of these is sections set out below.

Section	Coverage
Introduction	• Sets this document in appropriate context and helps the reader to navigate within the document
Executive summary	• Sets out the key elements and conclusions of the report
Compliance statement	• Provides Board confirmation that UUW has complied with the relevant statutory, licence and regulatory obligations
Annual performance	• Provides detailed commentary on our performance in 2015/16 relative to the price review assumptions
Regulatory Accounts	• Provides regulatory accounting data and information. This section also contains copies of the pro forma data tables
Appendix 1 Assurance summary and findings	• Sets out a summary of the assurance undertaken to support this report and the findings of the financial and technical auditors.

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Annual Performance Report 2016

Executive Summary

Introduction

Every five years we develop plans for the price, investment and service package we propose to deliver to customers in the North West of England. These plans are scrutinised by relevant stakeholders with the water regulator, Ofwat, making a final determination on the package. Our plan for 2015-20 was finalised in the 2014 price review process (PR14) with Ofwat publishing the Final Determination ("FD") on its website link.

The determination sets expectations about the customer service and performance standards during the period. It also specifies the levels of investment that companies are expected to make to deliver these service standards, the revenue that the companies will need to recover from customers to finance this expenditure and the incentive and change control mechanisms that would apply if requirements, performance or expenditure levels varied from the levels assumed in the 2014-price review.

In this UUW Annual Performance Report, we set out the progress we have made in 2015/16 against the first year of our five-year business plan and against the PR14 FD.

This report also contains the specific suite of data tables specified by Ofwat. These tables are designed to set out the key annual performance metrics, to allow comparisons to be made to FD assumptions and, to some extent, the relative performance between companies.

Although we have confidence in the values that we have included in these tables, we believe that direct comparisons between companies may not be straightforward. The PR14 process allowed individual companies to develop each individual business plan with company specific measures based upon company specific definitions. There are also areas where the definitions mean there are a range of possible interpretations and this is the first year of reporting under the new approach. This may mean that different companies will use different assumptions when populating these tables.

Ofwat has also provided additional guidance since the FD which has resulted in changes to the allocation of costs, compared to the approach taken in the business plan and FD. This means that some direct comparisons against the FD may also not be straightforward and could be subject to varying interpretations.

This report also provides information on the differences between the UUW Regulatory Accounts and the UUW statutory accounts. Full details of the UUG statutory accounts can be found in the United Utilities Group PLC annual report and financial statements.

Overview of the year

Our proposed business plan for the 2015 to 2020 period included ambitious plans to improve service as measured through a suite of outcomes and specific performance commitments and to deliver substantial efficiencies in our wholesale totex requirements and retail cost to serve assumptions. The final determination set an even tougher challenge by requiring further improvements in performance against some of our performance commitments and further savings in totex and cost to serve efficiencies.

We have worked hard since the final determination to successfully restructure our plans so that we are now more confident that we will be able to meet these challenges within our final determination totex allowance.

Our outcome delivery incentives (ODIs) represent a set of challenging performance targets. We have accelerated investment in this first year of the new regulatory period to deliver early operational benefit and mitigate potential penalties under our ODIs. In light of this, regulatory capital investment for 2015/16, including infrastructure renewals expenditure (IRE), was £799 million.

We are also continuing to invest in our 'systems thinking' approach, which integrates the use of our assets, leverages data intelligence and employs new work processes and technology. We will be rolling out additional new capability later this year, supporting our drive for further improvement.

We believe that this accelerated and targeted investment, together with the strong management focus on customer service is leading to continuing improvement in our underlying operational performance. We have, however, faced a difficult year with a number of incidents impacting performance across a number of our ODI measures. We suffered a number of no supply incidents, including an event in Bolton, where alternative supply vehicles were used and extra resources deployed to get nearly 10,000 customers back on supply as quickly as possible. There were also two significant incidents in the year:

- In early August 2015, traces of the parasite cryptosporidium were found in the drinking water supplies at Franklaw water treatment works. Public health is a fundamental priority and we issued a 'boil water' notice to over 300,000 properties, representing approximately 10% of our customer base. We deployed extensive additional resources, including enhanced UV treatment, to restore the water quality to the high standards expected as quickly as possible. We also proactively compensated customers and restored a full service in early September. The cause of the original incident remains under investigation.

- In December 2015, the UK was battered by a succession of severe storms causing widespread flooding in Cumbria, Lancashire and Greater Manchester. Our services were badly affected, water supplies to Keswick were interrupted when its treatment works was inundated with flood water and several large wastewater treatment works were heavily flooded and operations severely impacted.

We recognise the inconvenience these issues placed on many of our customers and are very grateful for their patience and understanding. The failure in service caused by the major incidents above has generated an increased volume of customer contacts, compensation and Guaranteed Standards Scheme (GSS) failure payments. As a consequence of these incidents performance against our measures of success overall has been mixed.

The following sections of the executive summary of this report provide initial high-level Key Performance Indicators (KPI) reports, followed by a more detailed explanation of our performance for the year in terms of:

- Performance against the five promises, the outcomes and performance commitments that formed the basis of our business plan and the final determination.
- Expenditure, revenues and financial metrics, relative to the assumptions made in our PR14 business plan and the final determination, for the four separate price controls, together with the financial position of the overall appointed water and wastewater business.

Detailed data tables supporting these KPI reports and summaries are included in Section 2. Section 1 of the report provides a more detailed commentary.

Annual Performance Report 2016

Our operational performance and customer service

Introduction

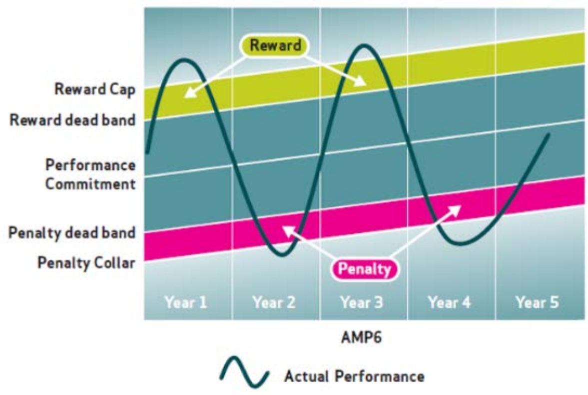
As part of our planning for the 2015-20 period, we spoke to thousands of people across the North West to understand what levels of service they wanted from us. This work resulted in five customer promises, which are based on the things that customers and stakeholders told us were most important about the services that we provide.

Each of these promises has a number of 'outcomes', which represent what we're aiming to achieve. Each outcome is underpinned by specific 'measures of success' that allow customers and stakeholders to judge our performance.

At the 2014 Price Review, we set annual performance commitments based on customer willingness to pay for service or based on the cost of service failure. Ofwat challenged some of the performance commitments associated with industry wide measures to bring them in line with its estimate of upper quartile industry performance, without any adjustment for different start points or different regional requirements. Many of the performance commitments are challenging, and require a significant improvement on our 2010-15 levels of performance

A small number of performance commitments don't carry a financial penalty or reward (i.e. don't have an ODI) but they do have a reputational incentive. Our promise around value for money is just such an example. Here, our fulfilment of the promise relies on customer assessment, as measured by a survey, rather than delivery of specific service performance.

The majority of the performance commitments do carry a penalty if we underperform and for some of these we can also earn a reward if we outperform. If we meet the performance commitments we "break even" and don't earn a reward or a penalty. We only start to earn money once we exceed the target, or incur penalties once we drop below it. There is a limit or 'cap' to the amount we can be rewarded for each promise in any given year.



Similarly, there is a limit (known as a 'collar') to the amount we can be penalised for underperforming.

However, we don't always enter penalty or reward territory immediately. For some measures, we have to outperform (or underperform) by a certain level, before there is a financial impact. This is because target setting is not always a precise science.

In a year beset by heavy rainfall for example, it might be difficult to meet our sewer flooding commitment. That's why there's a margin or buffer built into this measure (known as the 'deadband'), which protects us from immediately incurring penalties as soon as we fall below target. Similarly, for some measures we don't enter instant reward as soon as we outperform a target. We have to get beyond the reward 'deadband' to start earning a reward – to guarantee our great performance is the result of our own efforts and not the happy result of external factors, such as a mild winter, for example.

In the diagram above the measure would be in reward for two years, in penalty for two years and in the deadband for one year. Any net penalty or reward over the five years is included as part of the PR19 process for setting bills for the 2020-25 period.

Annual Performance Report 2016

2015/16 performance

Our 2015/16 performance against outcomes is set out below, followed by a discussion of our performance against each promise. Fuller details are set out in Section 1 Outcome delivery.

Operational Performance Summary (2015/16)

Performance commitment	Actual	Performance commitments		Incentive	
	2015/16	2015/16	Pass / Fail	Impact	Value
We promise to provide you with great water					
A1: Drinking Water Safety Plan risk score	4.3	<= 4.3	Pass	Reputational	N/A
A2: Water quality events DWI category 3 or above	35	<= 12	Fail	Penalty	£0.447m
A3: Water Quality Service Index	120.5	>= 119.3	Pass	Reward	£0.227m
B1: Average minutes supply lost per property (a year)	16:42	<= 16:00	Fail	Deadband	£0.000m
B2: Reliable water service index	16.447	>= 100.0	Fail	Penalty	£7.974m
B3: Security of supply index (SoSI)	100.000	>= 100.0	Pass	At target	£0.000m
B4: Total leakage at or below target	10.80	>= 0	Pass	Deadband	£0.000m
B5: Resilience of impounding reservoirs	161.61	>= 161.2	Pass	Penalty only	£0.000m
B6: Thirlmere transfer into West Cumbria[1]	2	>= 2	On track	At target	£0.000m
We promise to dispose of your wastewater					
S-A1: Private sewers service index	91.69	<= 100	Pass	Reward	£7.376m
S-A2: Wastewater network performance index	90.95	<= 106.2	Pass	Penalty only	£0.000m
S-B1: Future flood risk	16,472	<= 16511	Pass	Reputational	N/A
S-B2: Sewer flooding index	100.8	<= 93.1	Fail	Deadband	£0.000m
We promise to give you value for money					
E1: Number of free water meters installed	27,197	>= 61644	Fail	Reputational	N/A
B1: Customers saying that we offer value for money	50	>= 49	Pass	Reputational	N/A
B2: Per household consumption	303	<= 294	Fail	Reputational	N/A
We promise to deliver customer service you can rely on					
A-1: Service incentive mechanism (SIM)	TBC	UQWASC[2]	TBC	TBC	TBC
R-A2: Customer Experience Programme[1]	0.001	>= 1.053	On track	Deadband	£0.000m
D1: Delivering our commitments to developers, local and highway authorities	95%	>= 91%	Pass	Reputational	N/A
We promise to protect and enhance the environment					
C1: Contribution to rivers improved - water programme	36.84	>= 0km	Pass	Reward	£0.056m
S-C1: Contribution to bathing waters improved	0.47	>= 0.36	Pass	Penalty only	£0.000m
S-D1: Protecting rivers from deterioration due to population growth	48.0	>= 1.8	Pass	Penalty only	£0.000m
S-D2: Maintaining our wastewater treatment works	91.48	<= 83	Fail	Deadband	£0.000m
S-D3: Contribution to rivers improved wastewater (Km)	0.75	>= 0.75	Pass	At target	£0.000m
S-D4a: Wastewater (category 1 & 2) pollution incidents	4	<= 4	Pass	At target	£0.000m
S-D4b: Wastewater category 3 pollution incidents	136	<= 204	Pass	Reward	£3.278m
S-D5: Satisfactory sludge disposal	100.00	<= 100	Pass	At target	£0.000m

[1] These ODIs only would only earn a penalty or reward in 2019/20, annual performance assesses if delivery is on track to achieve this target.

[2] Upper quartile for water and sewerage companies.

We promise to provide you with great water

Our long term objective:	Outcomes:	Performance:
Your drinking water is safe and clean and you have reliable supply of water now and in the future	a) Your drinking water is safe and clean and b) You have reliable supply of water now and in the future	Six out of nine measures achieved Penalty of £8.194m (water)

What do our customers want?

Customers told us that they were happy with the quality of their water but, in some instances, would like its taste, smell and appearance to be improved. Customers also expect reliable, uninterrupted water supplies, and to have enough water in the North West to keep the taps flowing for many years to come, even in the face of long-term issues such as climate change.

How have we done?

In the last year, there were serious water quality incidents in Lancashire and Bolton. These incidents were very disappointing, causing considerable inconvenience for our customers. As a consequence of these incidents, UUW paid out substantial compensation payments to customers, incurred additional expenditure and failed our 'reliable water supply' measure, which incurred an £8m penalty.

At the time of writing, we await the Drinking Water Inspectorate's (DWI) report into the Lancashire incident, but we have not waited for this before taking action. We are making substantial investment in our assets, including installing permanent UV treatment at the Franklaw water treatment works in Lancashire. We are also continuing to make improvements to our incident management processes based on our learnings and in May 2016, we launched a new holistic 'Priority Services' service to support customers with additional needs.

Despite these incidents, we continue to supply a high level of water quality, our performance for four out of six measures used by the Drinking Water Inspectorate to assess our performance scored average, or above average, and the number of customer contacts we received about the quality of our water continued to reduce.

Performance against measures for water mains bursts, the number of properties affected by poor pressure and customer contacts for water supply availability has also been good, and we have successfully managed the level of leakage from our network to be below our leakage target.

We have also made good progress on a major project that we are undertaking to transfer water from the Thirlmere reservoir to a new water treatment works which will supply water into West Cumbria.

We have, however, seen a disappointing growth in the number of water quality events affecting our assets, so have set about a series of improvements in training, processes, asset standards and detection capabilities as a result. This will be a particular area of focus for us in the coming year.

We promise to dispose of your wastewater

Our long term objective:	**Outcomes:**	**Performance:**
Your wastewater is removed and treated without you ever noticing, and the risk of flooding for homes and businesses is reduced.	a) Your wastewater is removed and treated without you ever noticing, and b) The risk of flooding for homes and businesses is reduced	Three out of four measures achieved Reward of £7.376m (wastewater)

What do our customers want?

Our customers told us they want a reliable wastewater service that works well behind the scenes, and reduced sewer flooding, provided in a cost effective way that does not adversely affect bills.

How have we done?

In December 2015, there was unprecedented flooding across Cumbria, north Lancashire and Greater Manchester.

Our recent investments in improved resilience and our new integrated control centre helped enormously in our handling of these incidents and in maintaining service to customers. Despite these flooding events, the overall performance of the sewerage network has been improving, with a further year on year reduction in the number of blockages and collapses on the sewerage network.

In our business plan for the five-year AMP6 period, we proposed an ambitious target of reducing sewer flooding to customers' homes by 40%. As part of the price review process Ofwat made this target even more challenging by setting increasingly tough targets.

Sewerage networks are not designed to deal with extreme flooding events like the ones experienced in December. These events and other severe weather events are therefore excluded from our and other water companies flooding measures. Although the storms affected most of the region, in many areas they were not substantial enough to be classed as severe, despite them causing a large number of flooding incidents. As such, these incidents have been included in our measure.

We have made a good start to our programme of work to reduce sewer-flooding incidents by investing in schemes designed to reduce the risk of flooding of our customers' homes and targeting areas that are more likely to experience flooding. As a consequence of this work and despite the impact of the storms, we have hit our proposed business plan target for flooding incidents. However, we have not quite achieved the Ofwat target for sewer flooding, ending up in the deadband and as such not incurring a penalty.

In 2011, a large number of previously privately owned sewers transferred to UUW ownership for the first time. We measure performance on these assets separately. We believe that we manage this network in a more proactive way compared to some other water companies. This approach means that we spend more than, if we managed these assets in a purely reactive way, but this has the benefit of a better level of performance. As a result of this approach and the acceleration of investment in this area, we outperformed our performance commitment target and earned a reward on our measure for private sewers, which looks at blockages, collapses and external flooding incidents, with 937 fewer blockages, compared to last year (a 5% reduction).

We promise to give you value for money

Our long term objective:	Outcomes:	Performance:
Bills for you and future customers are fair; you'll have support if you struggle to pay and the North West's economy is supported by our activities and investment	a) Bills for you and future customers are fair	One out of three measures achieved All reputational

What do our customers want?

Customers want bills that are fair and affordable, with support for those who struggle to pay and money spent on projects that will deliver real improvements to services and the region as a whole. Our priority should be our core water and wastewater services, but we should maximise opportunity for partnership working to bring about environmental enhancements.

How have we done?

We think it is important to help our customers save money on their water bill and that customers feel that they are receiving good value for money for the services they pay for. Though largely a subjective measure, we know perceptions of 'value' are driven by greater understanding of the work we do, so we continue to take opportunities to talk about how to save money and promote our wider services to customers. This year we've achieved our target, but there is still more work to do.

We've not achieved our targeted reduction in household consumption of water, but have continued to promote water efficiency and meters where appropriate for customers throughout the year through a combination of marketing campaigns and new schemes designed to encourage customers to reduce how much water they use in their own homes.

We continue to be committed to helping our customers who are struggling to pay to help them get back on track. We've extended our assistance schemes, developing a new social tariff (help to pay) from 2015, and contribute annually to the United Utilities Trust Fund, which has been effective in helping customers in difficulty return to regular payment.

Our support for partnerships, both financially and through employee volunteering, has also continued this year. 'Catchment Wise', our approach to tackling water quality issues in lakes, rivers and coastal waters has continued to support projects across the region, whilst our land management partnership with the RSPB is helping to transform upland catchments. By supporting partners with similar aims as ourselves, we are able to work together, and in most cases attract further funding from other sources – helping our customers' money go even further. For instance, our partnership with regeneration charity Groundwork aims to make a difference in areas affected by our investment projects. Last year for every pound we spent, the partnership managed to attract over three additional pounds to spend on the project.

We promise to deliver customer service you can rely on

Our long term objective:	Outcomes:	Performance:
You'll be highly satisfied with our service and find it easy to do business with us	a) You're highly satisfied with our service and find it easy to do business with us	One out of two UU specific reputational measures achieved. Position on SIM is dependent upon other company performance.

What do our customers want?

Our customers want great service from us every time they get in touch – with easy access to our services and information, for problems to be resolved quickly and professionally, and great communication about those issues we can't solve straight away.

How have we done?

We've delivered substantial improvements in our customer service performance over recent years. We've now established a Customer Experience Programme to drive further improvements. This programme focuses on a range of developments – some of which are technological – to allow us to better respond to customers' evolving needs. The measure of success for this programme hasn't been met this year but this is due to us amending our approach to ensure that the new multi-channel contact centre we will put in place – including a new website and customer relationship management (CRM) system – can be delivered seamlessly for our customers.

Our target for customer service - as measured by Ofwat's Service Incentive Mechanism (SIM) which measures both the number and the quality of customer contacts - is to move towards upper quartile performance in the medium-term. This improvement in customer service in terms of ranking is strongly linked to our vision to be the best UK water and wastewater company. Our performance on SIM was impacted by the water service incidents and the flooding events. Despite these incidents, we have seen a 4 per cent year-on-year improvement in terms of the quantitative SIM score and a greater than 10 per cent improvement on an underlying basis, adjusting for the exceptional incidents. The four Ofwat customer satisfaction surveys undertaken for 2015-16 also saw us improve our score for the quality of our customer contacts, including scoring number one on wastewater in the last qualitative survey.

One of our objectives for this promise is to continue to provide an improving service to developers, local authorities and highway authorities. We are pleased to have outperformed our target for this measure, delivering a better overall standard of service, which can be seen in a new dedicated page on our website. http://www.unitedutilities.com/developer-performance.aspx.

We're also well advanced in our preparation for 2017's full English market opening for Non-household retail customers. Recognising that there could be benefits for our customers in reduced bills and improved service, in March 2016, we announced that we had entered into a joint venture (JV) with Severn Trent. This transaction received Competition and Markets Authority approval in May and was formally completed at the start of June. The new company, 'Water Plus' will combine the complementary capabilities of both companies, and will work to deliver an attractive choice for large and small business customers in England and Scotland.

We promise to protect and enhance the environment

Our long term objective:	Outcomes:	Performance:
The natural environment will be protected and improved in the way we deliver services; the North West's bathing and shellfish waters are cleaner through our work and that of others and our services and assets are fit for a changing climate and our carbon footprint is reduced.	a) The North West's bathing and shellfish waters are cleaner through our work and that of others b) The natural environment is protected and improved in the way we deliver our services, and c) Our services and assets are fit for changing climate and our carbon footprint is reduced	Seven out of eight measures achieved. Reward of £0.056m (water) and £3.278m (wastewater)

What do our customers want?

North West customers are passionate about our coastlines, recognising the link between good bathing water, tourism and the economic health of our local communities. They expect us to protect and enhance the areas of natural beauty under our ownership and work to reduce our carbon footprint.

How have we done?

On the Environment Agency's last published assessment (2014) UUW was an upper quartile company, joint 2nd position among the 9 English water and sewerage companies. Although at the time of writing the 2015 position hasn't been published, we have continued to deliver strong environmental performance and are confident that this position will be at least maintained.

We have also made a good start on our substantial environmental programme. Most of the projects within this programme will be delivered later in the period. We have delivered our 2015/16, river and bathing water improvement schemes on time, including a significant scheme at Allonby wastewater treatment works in Cumbria, together with the installation of additional monitors at bathing and shellfish water sites agreed with the Environment Agency.

We did not achieve the performance commitment for maintaining our wastewater treatment works, but the performance level was within the anticipated deadband range and as such hasn't resulted in a penalty. December 2015's winter storms had a severe impact on communities and the services we provide in Cumbria, Lancashire and Greater Manchester. For example, the treatment process at Kendal wastewater works was washed away. Our rebuild and repair at this site is now largely complete and has included work to make these new assets more resilient to future exceptional flooding incidents.

Our performance commitment for maintaining our WwTW becomes tougher through the period and we are aiming to meet this challenge through more effective management and operation of our sites and through the delivery of our capital programme. At Liverpool, Her Royal Highness the Princess Royal opened the £200 million extension to the treatment works. The new Sequencing Batch Reactor will clean up to 11,000 litres of wastewater a second, contributing to a cleaner Mersey and the continued renaissance of the Liverpool waterfront.

Our sludge treatment and disposal activities continue to focus on ensuring 100% compliance with environmental requirements and promoting treated sludge as an alternative to fertiliser. We have also made significant progress in increasing the quantity of energy-generated from our sludge treatment facilities and have a target of producing 35% of our own electricity this way by 2020.

Our expenditure, revenues and financial performance

Introduction

The PR14 process defined separate price controls and made specific assumptions on costs, return and revenues for our wholesale (water and wastewater) and retail (Household and Non-household) services. The key values set within the final determination are set out in the table below, with these values being used to determine the assumed level of customer bills for the 2015 -20 period.

PR14 final determination - UUW allowed costs, return and revenue (AMP6 totals)

Wholesale	Water	Wastewater
Totex 2015-20 total (£m)	2,356	2,940
Allowed return (%)	3.60%	3.60%
Allowed wholesale revenue 2015-20 (£m)	3,331	3,954
Retail	**Household**	**Non Household**
Cost allowance– 2015-20 total(£m)	553	n/a
Margin (%)	1.00%	2.50%
Retail allowed revenue (£m)	616	186

Notes: Wholesale figures are shown in 2012-13 prices as wholesale revenue will be affected by inflation, whereas retail figures are shown in nominal prices as retail revenue will not be affected by inflation.

The £186 million Non-household revenue shown in the table above is indicative, as it does not assume any gains or losses from competition or from UUW charging customers at levels different to the relevant default tariffs

Interaction of operational and financial incentives

The FD imposes a broad range of incentives on the company to promote efficiency and effective delivery of our functions and the provision of a vital public service. The previous section set out in detail the performance incentives ("Outcome delivery incentives") which penalise the company for operational performance when below target and – in some areas – provide a reward for outperforming operational targets where outperformance is valued by customers.

This section sets out detail on another key part of the incentive package: the company's financial performance. Companies have a broad range of choices on how they should approach the financing of the business. The FD provides clear incentives for companies to act efficiently in their approach to financing the business and rewards them for doing so. These incentives are a recognised part of the package of risk and reward incentives that companies and investors sign up to in accepting the challenges set in the FD.

The incentive package is positioned to be sufficiently broad and challenging that companies need to manage diverse risks and utilise available opportunities in order to earn a balanced return for investors whilst delivering the best possible package of price and service to customers and the environment.

In UUW's case the FD has provided particularly tough challenges on us to deliver substantial cost savings and greater efficiency in capital and operating expenditure. Furthermore, as described in the previous section, we need to do this whilst trying to minimise the penalties likely to arise from a very challenging set of outcome delivery incentives for operational performance standards.

As is set out below, in order to give us the best chance of delivering against these challenges, the company has, on behalf of its shareholders, brought forward over £200m of investment into the early years of the AMP. Despite this proactive action it remains unlikely that we will earn an overall reward on ODIs across the AMP and we are likely to fully spend the totex allowance for operating and capital expenditure. The company is also likely to incur £70m of additional expenditure on pension deficit repair contributions beyond those reflected in the FD.

Falling interest rates and efficient treasury management mean that we expect to be able to outperform financing assumptions included in the FD. This feeds through into a higher reported level of RORE (return on regulated equity) for the 2015/16 year. However, the company will face tougher targets on ODIs in future years as well as a declining allowance for domestic retail activities which is unlikely to be sufficient to meet the costs incurred. Whilst we are incentivised to minimise the impact of these issues – and will work hard to do so - it is likely that they will put downward pressure on return in future years. In view of this, it will be important to consider overall return and performance in the light of the full range of incentives faced by the company both for operational and financing activities across all five years of the price control period and as reported in future Annual Performance Reports.

Wholesale price controls

The wholesale price controls effectively fixed the amount of revenue that could be collected and set out an incentive regime to manage changes between allowed totex levels and actual totex levels.

Totex performance and incentivisation

The totex investment regime is designed to integrate capex and opex expenditure to generate a total expenditure level (totex). The PR14 process defined an allowed level of totex for the water and wastewater wholesale businesses, with this allowed investment level used to determine AMP6 wholesale revenue requirements.

Any variance between the initial totex allowances and the actual expenditure over the full five-year period would be assessed through the totex incentive mechanism as part of the next price review in 2019. This mechanism works such that if we have been able to make greater efficiencies than assumed in the final determination, then approximately half of the saving would be retained by the company and half would be returned to customers. Similarly, if our expenditure had needed to be higher than the initial allowance, half of the increased expenditure would be recovered from customers.

No changes are made to revenue allowances or customer bills as a result of any variance in annual totex levels. If there is any net variance to either the water or wastewater totex allowances over the full five-year period, then the impacts of this variance would be included within the PR19 price review process and reflected in customer bills during 2020-25 and beyond.

Retail price controls and incentives

The retail price controls effectively fixed the cost per customer and margin that could be recovered for providing retail services to different customer groups. Total revenue levels will therefore vary depending on customer numbers within the different groupings and as there is no cost sharing mechanism any change in costs will directly impact upon company profit and will not impact upon customer bills in the period.

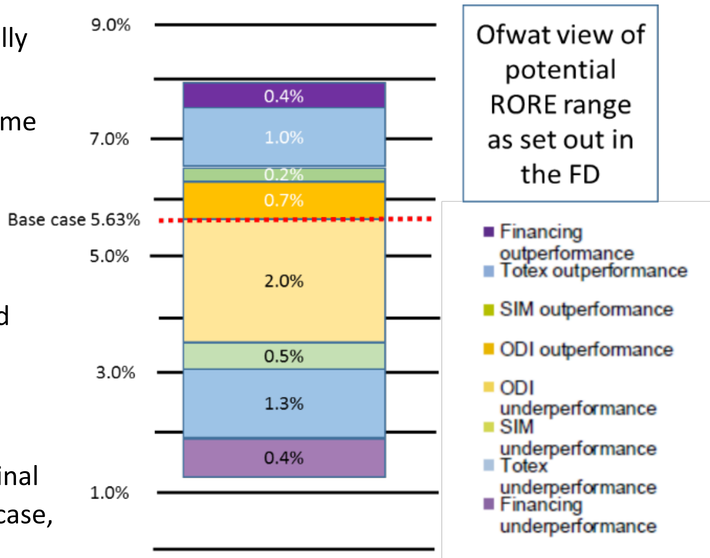
Financing and return

As part of the final determination, Ofwat published a series of key financial indicators that were used to demonstrate that the business plan should be financeable together with a theoretical range of returns on regulatory equity (RORE) that UUW could earn dependent on its performance and external risk factors over the price control period.

The key AMP6 performance factors that were identified in the final determination as potentially driving changes in the level of return were:

- Penalties or rewards through the outcome delivery incentives (ODIs);
- Customer service as measured through SIM (Service Incentive Mechanism);
- Cost efficiency compared to the allowed wholesale totex and retail costs, and
- Financing (based on a notional capital structure and a notional cost of debt)

The assumed range of potential returns in the final determination, compared to the notional base case, varied between 1.4% and 7.9%.



2015/16 performance - expenditure, revenues and finance

Our performance against the key expenditure and financial measures set out in the final determination is set out within the two tables below. These tables should be read in conjunction with the notes supplied underneath.

Expenditure and revenues (2015/16)

Measure	Ofwat FD assumption	FY16 Actual	Variance
Wholesale totex (Water) (12/13 prices)	£458m	£507m	+£49m
Wholesale totex (Wastewater) (12/13 prices)	£562m	£673m	+£111m
Household retail revenues	£132m	£130m	-£2m
Household retail operating costs	£120m	£120m	£0m
Non-household retail revenue	£36m	£36m	£0m
Shadow RCV	£10,210m	£10,302m	+£92m

Note: Due to the acceleration of the expenditure programme, the totex variances and shadow RCV do not reflect the likely outturn position at the end of the AMP6 period.

Financial metrics for the year ending 31st March 2016

Financial ratios	Notes	Ofwat FD assumption	FY16 actual
RORE	1,2,3	5.60%	6.85%
Cash interest cover ratio (ICR)	1	3.28	5.16
Adjusted cash interest cover ratio (ACICR)	1	1.65	2.63
Funds from operations(FFO)/debt	1	10.25%	11.29%
Gearing	1	59.83%	62.55%
Dividend cover (profit after tax/dividends paid)	1,4	1.39	2.03

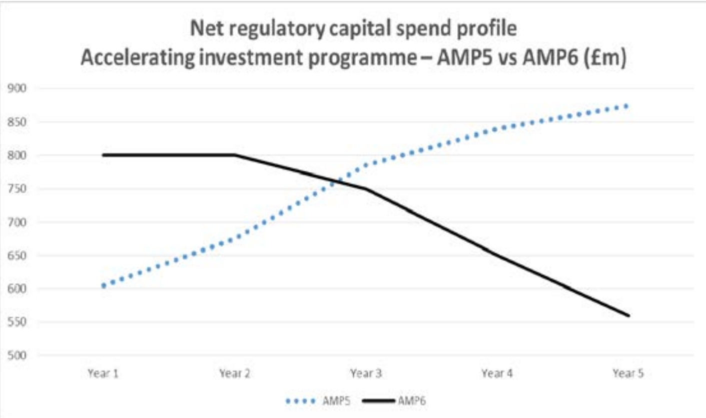
Notes:

1. Ofwat FD ratios are derived on a notional capital structure with a notional cost of debt and reflect 100% of IRE expensed in the income statement.
2. The actual RORE value presented is based upon the APR line definitions, but may have been interpreted and presented differently by different companies.
3. The Ofwat FD assumed return is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt, whereas the FY16 actual value reflects the UUW actual company-specific position. This means that the numbers are not directly comparable.
4. Dividend cover on an underlying basis, reflecting the appointed element only of the UUW dividend, would be 1.72.

Wholesale totex

Total expenditure levels in 2015/16 have been significantly above the 2015/16 allowance within the PR14 final determination.

The reported water service overspend is £49m, with the reported overspend in wastewater being £111m (in 2012/13 prices). However, since the final determination was published Ofwat has provided revised guidance (RAG 2.05) on cost allocation principles. This sets out that capital expenditures and associated depreciation of assets should be reported in the service of principal use of that asset with recharges made to the other services that use the asset. This has resulted in approximately £35m of totex being recorded in the wastewater service which would previously have been accounted for in the water service.



NB the AMP6 investment programme shown on the chart does not constitute a forecast and is subject to change

Therefore on a more like for like basis the increase in totex spend in 2015/16 relative to the FD would be £84m in water and £76m in wastewater.

The key reason for this increased expenditure is because we have chosen to accelerate our expenditure programme to enable us to target better service levels to customers, improve performance against our outcomes and to drive out future efficiency savings. We have also incurred some additional expenditure as a consequence of the incidents that occurred this year.

The direct costs and compensation costs associated with these incidents is not included within the totex incentive assessment to ensure that customers do not contribute to these costs. Pension deficit recovery costs were also higher than allowed in the FD, with these costs also being excluded from the totex incentive assessment.

We have also made good progress in meeting the efficiency challenge we faced in the FD and expect that over the five years our total expenditure, as assessed through the totex incentive models, will be broadly in line with the equivalent totex allowances in the final determination.

Household retail operating costs and revenues

Overall, household retail operating costs are in line with the final determination allowance. Actual customer numbers are 8,700 lower than those used to calculate the indicative retail revenues allowed in price limits resulting in a small reduction in actual allowed retail revenues. Despite this, retail revenues exceeded operating costs by approximately £10m.

The changes to the Regulatory Accounting Guidelines (as defined in paragraph 2.3 of RAG 2) regarding the accounting for the depreciation of legacy assets has resulted in an additional depreciation charge to household retail of £5m for which there was no allowance. This additional cost has been offset by achieving efficiency savings above those assumed in the Ofwat allowance.

Despite the good progress that is being made on our Customer Experience Programme, it is likely that this position will deteriorate year on year as the allowed cost to serve reduces during the period and does not increase in line with inflation.

Non-household retail

Although Non-household revenues are in line with FD assumptions, operating costs are higher than allowed within the retail revenue price limits for 2015/16. This increase in costs was mainly due to one-off Market Reform costs in preparation for market opening, changes in the timing of depreciation charges and temporarily increased costs following the implementation of a new billing system at the end of 2014.

During the year, the Non-household retail business has continued preparations for both market opening in April 2017 and its submission to Ofwat's review of the Non-household retail price control later this year.

On 1 June UU completed a joint venture agreement with Severn Trent which combined both companies' business retail operations ahead retail market opening. We believe that the new company, "Water Plus", will be a fresh, competitive operation providing customers with a better service proposition and representing an attractive choice of retail supplier. The combined business has around 400,000 business customers.

Financial performance

Full details of the company's financial performance, including our long term viability statement are set out in the UUW statutory accounts. Section 2 of this report sets out the differences between the UUW statutory accounts and the UUW Regulatory Accounts and confirms that these statements have been completed and audited appropriately.

Overall, we have been able to publish a good set of results especially in the context of the tough new price controls. We have benefitted from a reduction in underlying finance expense and we continue to maintain a strong balance sheet and solid credit ratings. We have already raised £1.4 billion of our £2.5 billion financing requirements for the five-year regulatory period and we have locked in a low cost of debt for 2015-20, with an appropriate mix of index-linked and nominal debt; and our hedging policy means we are well placed to manage future financing costs.

Return

The notional base case return on regulated equity (RORE) that was assumed in the final determination was 5.6%. The actual outturn position in 2015/16, subject to future confirmation of SIM impacts, was 6.85%. However, comparisons between these two numbers can be misleading; the outturn number reflects the UUW actual company-specific position whereas the base case return in the FD is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt. Furthermore, because of differences in how different companies undertake the RORE calculation, it is unlikely that cross-company comparisons provide a like-for-like view.

Outcome delivery incentives – We incurred a net penalty of £8.1m in the water business and earned a net reward in the wastewater business of £10.6m. Taken together, these amount to a net benefit to the company of £2.5m for the year and a positive uplift to the base case RORE of 0.1%. These figures only represent the first year of performance; actual rewards or penalties are calculated at price control level at the end of the AMP.

SIM – is a measure of relative intercompany performance. As final results have not been published, at the time of writing we cannot be definitive on any SIM impacts. Despite the water service incident and extreme flooding events we believe that our performance is about average within the industry, meaning we do not currently anticipate either a penalty or reward on the SIM measure for 2015/16.

Totex – Although we incurred significantly more wholesale totex in 2015/16 than assumed in our business plan, the majority of this has been acceleration of spend as opposed to additional spend. Therefore we are assuming no overall impact on return. Although retail costs are in line with the plan, retail revenues are slightly lower, which produces a slight (0.02%) reduction in RORE.

Increased pension deficit recovery and compensation costs are not accounted for in the totex incentive mechanism and as such do not feature in the RORE calculation.

Financing – The balance of the increase in the calculated actual RORE relates to financing. Ofwat's central case RORE value for UUW was based on a theoretical, efficient company with a notional capital structure and a notional cost of debt. This means that the values are not directly comparable.

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Risk and compliance statement

UUW Board's Risk and Compliance Statement 2015/16

The Board of United Utilities Water Limited (the Company or UUW, where the context requires), is required by Ofwat to provide an annual statement confirming its compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers for the report year 2015/16. This statement is complementary to other statutory Board statements.

The Statement

The Board considers that the Company has applied its processes and internal systems of control in a manner that has enabled it to satisfy itself, to the extent that it is able to do so from the facts and matters available to it, that:

- The company has sufficient understanding of its relevant statutory, licence and regulatory obligations for 2015/16.
- Customer expectations are being met through monitoring of the regulatory contract performance targets, measures and outcomes.
- There are sufficient processes and internal systems of control to enable it to deliver its services to customers and meet its relevant statutory, licence and regulatory obligations for 2015/16.
- Appropriate systems and processes are in place to allow it to identify, manage and review its risks.

Departures from this statement are set out in a table following the compliance statement; the assurance process has not identified any material risks to the compliance statement.

Obligations

The Board manages the effective and efficient delivery of its obligations and operation of everyday activities within the business by the interaction of:

- **Authorisations, approvals and procedures**. These are set out in the United Utilities Group PLC (UUG) Internal Control Manual (ICM) to provide guidance to employees as to the system of internal controls that they must follow when acting on behalf of UUW and UUG as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.
- **Policies.** The Board has adopted an overriding set of business principles. These are supported by a range of underlying policies that provide guidance to its employees as to how they should conduct themselves when acting on behalf of UUW and UUG as a whole. Everybody working for or on behalf of UUW must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal prosecution in serious cases.
- **Governance and control**. The Board delegates responsibility for specific matters to a number of committees and working groups. This provides a framework that employees are expected to be aware of and comply with where relevant to their role to ensure business decisions are taken in accordance with best business governance practices.

To oversee and take decisions affecting the execution of its obligations, the UUW Limited Board:

- Receives and reviews performance reports from the relevant employees of the Company.
- Receives and reviews reports and presentations from the UU Corporate Audit Team, the financial and technical Auditors.
- Receives and reviews reports and presentations from the wholesale, domestic retail, business retail, and finance directorates.
- Has access to executive and senior managers in the Company to verify information.

Should a significant regulatory risk or issue materialise during the report year then UUW will update Ofwat accordingly to demonstrate that the company is aware of and is responding appropriately to manage that risk or issue. **No such issues arose in 2015/16.**

Processes and systems

The directors have a reasonable expectation that the processes and systems of control the company uses are adequate for it to meet its obligations. This opinion, taking into account the relatively stable and regulated nature of the business is based, amongst other matters, upon a review of the company's performance for 2015/16, the results of the annual management control self-assessment, the work of Corporate Audit and a review of the company's risk and issues register.

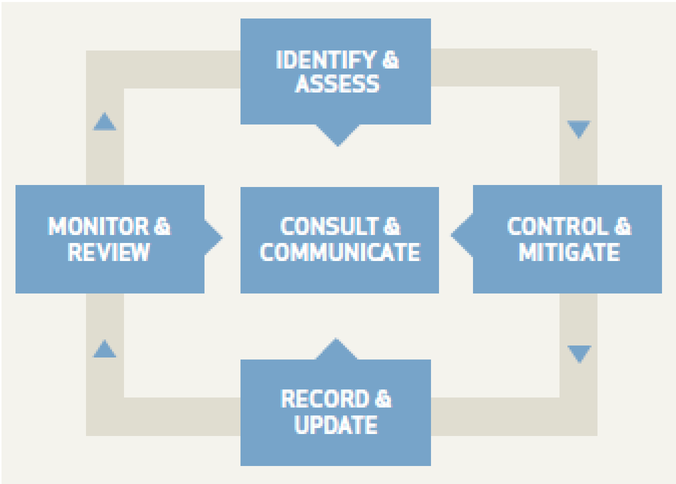
In respect of this Statement, assurance is provided by:

- **Using UUW's established processes and methodologies for reporting performance.** This requires data providers, their managers and business unit directors to produce and approve Performance and Compliance Statements that set out the evidence to support the reported performance and control checks that have been applied. The operational performance data is collected at month 6, month 9 and year-end.
- **Comparing the reported outturn performance with our company business plan targets, regulatory targets and predicted future performance.** This exercise allows variances to be identified and explored. Where required, explanatory statements are sought from business managers. These statements are analysed and assessed by the Economic Regulation Team and findings are reported to the relevant Executive Directors, with any material issues highlighted to the UUW Board.
- **Business Unit Directors are required to complete an annual management control self-assessment.** This assessment provides confirmation that reporting processes and systems of control are robust, and any actions identified during the report year have been addressed, or have actions scheduled.
- **Reviews are undertaken by UUW's Corporate Audit team and Technical Auditor of the Company's processes, risks and controls.** Their findings are reported to the Board to aid the Board's decision to approve the annual Risk and Compliance Statement.

Where material issues are identified and/or the Board considers it is unable to support the expectations of the Statement then exceptions are set out in a table at the end of this statement.

Risk Management

United Utilities risk management process (adapted from ISO 31000: 2009)



UU has developed a sophisticated approach to the assessment, management and reporting of risks, with a process aligned to ISO 31000: 9001.

This approach includes a well- established governance structure for the group board to review the nature and extent of the risks that the group faces and the audit committee to review process effectiveness. The risk process is supported by a central database, tools, templates and guidance to drive consistency.

The risk profile currently illustrates circa 200 event-based risks. All event types (strategic, financial, operational, compliance and hazard) are considered in the context of our strategic themes (best service to customers; lowest sustainable cost; and responsible manner).

Responsibility for the assessment and management of the risk (including monitoring and updating) is assigned to line management at a frequency relative to the business environment /extent of change, with a minimum requirement of twice a year, in line with the reporting to the group board at full and half-year financial account reporting periods.

The executive management team regularly reviews significant risks so that the Board can determine the nature and extent of those risks it is willing to take in achieving its strategic objectives. The Audit Committee regularly review the effectiveness of UUW's risk management and internal control systems.

The approach to corporate risk management and principal risks and uncertainties are set out in the United Utilities Group PLC annual report and financial statements.

In respect of regulatory reporting UUW has maintained its tailored risk management and assurance approach that had been used in our previous regulatory reporting, but has enhanced this by implementing a new risk assessment process, specifically tailored to comply with the requirements of Ofwat's new Company Monitoring Framework.

This regulatory reporting risk assessment process has been described and consulted on during 2015/16, via three main publications:

- Risks strengths and weakness statement
- Draft assurance plan
- Final assurance plan

The regulatory reporting risk assessment process is designed to identify potentially high-risk elements of our reporting and to both ensure that action plans are established to manage or mitigate the risk and to ensure that the governance and assurance that is applied to these targeted higher risk areas is proportionate.

The higher risk targeted areas, together with governance and assurance arrangements used to support the development of this UUW Annual Performance Report is set out within the final assurance plan, with Appendix 1 of the Annual Performance Report providing confirmation that this approach has been followed and setting out the findings of that assurance.

Key reporting requirements

Corporate governance

United Utilities is fully compliant with the UK Corporate Governance Code, which is consistent with Ofwat's principles on Board leadership, transparency and governance, as set out in the United Utilities' Code on board leadership, transparency and governance, published on 30 June 2015. The code can be found via the attached link.

Maintaining investment grade credit rating – F6A.6

UUW has long-term credit ratings of A3 (stable outlook) with Moody's Investors Service (Moody's) and BBB+ (positive outlook) with Standard & Poor's Ratings Services (S&P). Assuming no significant changes to existing ratings agencies' methodologies or sector risk assessments, UUW aims to maintain, as a minimum, its existing credit ratings with Moody's and S&P.

Condition F6A

The directors have issued a certificate under Condition F6A of the Licence stating that the Company will have available to it sufficient financial and management resources and facilities to enable it to carry out, for at least 12 months, its regulated activities. This certificate also confirms that all contracts entered into with any associated company included all necessary provision and requirements concerning the standard of service to be supplied by the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Remuneration and standards of performance

The UUG remuneration committee reviews the pay of directors and the pay scales applicable to senior management. The United Utilities Group PLC annual report and financial statements contains a Directors' Remuneration Report that reports in accordance with the Listing Rules, the Accounts Regulations and the UK Corporate Governance Code. In addition, the UUW Annual Performance Report demonstrates that "Best practice guidance on directors' pay and standards of performance" have been complied with. Neither the executive nor the non-executive directors receive any additional remuneration from the Company for their services to the UUW Board.

Condition K

As required by paragraph 3.1 of Condition K of the Instrument of Appointment granted by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991 ('the Licence'), the directors state that they are satisfied that as at 31 March 2016, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of UUW, the company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the company so that the purpose of the order could have been achieved.

Outcome delivery

Performance against the outcomes and performance commitment targets, set out in the PR14 final determination, is monitored on a monthly basis throughout the business, as part of internal company scorecard reporting. Annual and longer-term performance summaries are also reported on a regular basis through the year to the UUW Board and to YourVoice.

Full details of the 2015/16 performance against these outcomes along with a view of potential longer-term performance is provided and published within this report.

RAG 5 – Transfer pricing

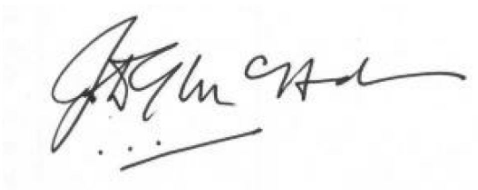
Directors and senior managers of UUW declare, to the best of their knowledge, that all appropriate transactions with associate companies have been identified and that the appointee complies with the objectives and principles of Regulatory Accounting Guideline (RAG) 5.06.

Condition M – Provision of information

UUW has retained the governance framework in place for regulatory reporting purposes in prior years, which has allowed it to continue to monitor performance against its AMP6 regulatory targets to determine whether the Company is meeting customer expectations.

Signed on behalf of the Board

Steve Mogford
Chief Executive Officer



Dr John McAdam
Chairman

2015/16 Compliance statement – Departures from the statement

The Board considers that the Company has applied its processes and internal systems of control in a manner that has enabled it, to the extent that it is able to do so from the facts and matters available to it, to identify material departures from the obligations as set out below:

Obligation	Measure	Departure
Environmental Permitting (England and Wales) Regulations 2010	Discharge permit compliance	Ten WwTW have been classified as failing their discharge permits in 2015/16, with 97.2% of works (measured by population equivalent) complying with their discharge permits.
Water Industry Act 1991 Water Supply Requirements	Security of Supply Index	In most cases, and for most of the time, there is adequate water available for abstraction. However, we are working with the Environment Agency to protect environmentally sensitive species and habitats – particularly in West Cumbria. The actions that are needed to help protect this area have already been identified and will continue to result in a significant reduction in water available for supply in West Cumbria. UUW has implemented a series of short-term measures to mitigate the risk to supply, with a long-term solution to transfer water from Thirlmere reservoir to this supply zone now underway.
Defra statement of obligations	National Environmental Programme (NEP) 5	As part of the 2014 price review process, our CEO Steve Mogford wrote to inform Ofwat and the Environment Agency that we would not be able to meet the preferred consent dates for three projects, but that we would seek to deliver these projects as early as practical. He also stated that as the project, Manchester Ship Canal (Salford Quays to Bollin Point) (6UU0379) was a late addition to the programme; we did not have a confirmed delivery date for the project and included an assumed delivery date of 31st March 2020 in the letter. A date of 31/03/17 has now been included within National Environmental Programme (NEP5) for this project, which we will are unlikely to be able to achieve.

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1. 2015/16 performance

This section of the Annual Performance Report sets out how we have performed against the service and expenditure assumptions made in the 2014 price review.

The Regulatory Accounts which support much of the information in these tables are set out in section 2 of this document. The pro forma tables that provide the basis and detailed information supporting this review are reproduced within section 2.3 and 2.6 of this Annual Performance Report. Technical details of our outcomes and performance commitments are also available in the document “Outcome definition documents” available on our website, via this link.

1.1) Outcome delivery

Table 3a in section 2.6 of this report, reviews each of UUW’s 27 outcome performance commitments (PC). For each PC it sets out the actual 2015/16 performance and then compares this to the 2015/16 performance commitment and the 2014/15 performance level. Where relevant it also shows whether this annual performance level would generates a financial reward or penalty and whether we are forecasting an overall penalty or reward over the full five-year period.

Our outcome delivery incentives (ODIs) represent a set of tough performance targets. To seek to manage this challenge we have continued to focus on and invest in our ‘systems thinking’ approach which integrates the use of our assets, leverages data intelligence and employs new work processes and technology.

We have also accelerated investment into this first year of the new regulatory period to deliver early operational benefit and mitigate potential penalties under our ODIs. In light of this, regulatory capital investment for 2015/16, including infrastructure renewals expenditure (IRE), was £799 million – see section 1.2 Wholesale totex.

We believe that this accelerated investment along with clear management focus is continuing to bring improvements in our underlying operational performance. However, as described in the Executive Summary to this document we have faced a difficult year with a number of operational incidents impacting upon our performance.

As a consequence of these incidents the performance against our ODIs has been mixed. Performance against our water ODIs has been particularly impacted by the incidents that occurred during the year resulting in a net penalty of £8.14m. Performance against our wastewater ODIs, was less affected by the incidents and amounts to a net reward by £10.65.

The 2015/16 performance against each performance commitment within Table 3a is summarised below. These summaries also provides an indicative view of the potential performance of each measure for the remaining years of the AMP6 period. It should be noted that the actual performance of these measures will, to differing degrees, be subject to a number of future risks, opportunities and uncertainties. Therefore, the views presented in Table 3a and described below are indicative values only, which are mainly designed to provide additional transparency on our current expectations for the measures and on the factors that could influence our future performance.

1.1a) Water Service performance commitments

2015/16 Annual performance summary

Performance against our water service outcomes is set out in the table below

Water Service Operational Performance Summary (2015/16)

Performance commitment	Actual	Performance Commitments		Incentive	
	2015/16	2015/16	Pass / Fail	Impact	Value (£m)
A1: Drinking Water Safety Plan risk score	4.3	<= 4.3	Pass	Reputational	N/A
A2: Water quality events DWI category 3 or above	35	<= 12	Fail	Penalty	(0.447)
A3: Water Quality Service Index	120.5	>= 119.3	Pass	Reward	0.227
B1: Average minutes supply lost per property (a year)	16:42	<= 16:00	Fail	Deadband	0.000
B2: Reliable water service index	16.447	>= 100.0	Fail	Penalty	(7.974)
B3: Security of supply index (SoSI)	100.000	= 100.0	Pass	At target	£0.000
B4: Total leakage at or below target	10.80	>= 0	Pass	Deadband	£0.000
B5: Resilience of impounding reservoirs	161.61	>= 161.2	Pass	Penalty only	£0.000
B6: Thirlmere transfer into West Cumbria	2	>= 2	On track*	On target	N/A
C1: Contribution to rivers improved - water programme	36.9	>= 0km	Pass	Reward	0.056
D1: Delivering our commitments to developers, local and highway authorities	95%	>= 91%	Pass	Reputational	N/A
Water Service net (Penalty)					(8.138)

*The Thirlmere ODI would only earn a penalty or reward in 2019/20, annual performance assesses if delivery is on track to achieve this target.

Line 1 A1 Drinking Water Safety Plan risk score

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
4.3	**4.3**	4.3	Reputational	Reputational

This performance commitment measures the level of risk identified through the drinking water safety plan process, with the target designed to ensure that risk levels do not increase. The original performance commitment target for this measure that was included within our business plan and confirmed in the final determination was 3.9. This value was based upon the DWI reporting requirements at that time and which had been used for previous years reporting.

Since the final determination was published, there has been a change in DWI reporting requirements as set out in DWI Information Letters 02/2014 and 01/2015. This means that risk reporting has moved away from hazardous events to hazards. One hazardous event may have several hazards associated with it and this has resulted in an increase in the number of risk scores and consequently the number of elevated risks scores. Based upon the revised methodology the like for like score would be 4.3.

In 2015/16 we have maintained the same level of risk as 2014/15 meaning that we have met the performance commitment for 2015/16. This is a reputational measure with no financial incentive.

Line 2 A2: Water quality events DWI category 3 or above

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
27	**35**	12	**£0.447m (Pen)**	**£1m (Pen)**

The target for AMP6 is a challenging one and we have seen a deterioration in performance during 2015/16 due to following reasons:

- There has been an increased number of water quality events associated with customers receiving discoloured water following both planned and unplanned activities on the network.
- There has been an increase in the number of category 3 events at water treatment works.
- Adverse weather this winter (storm Desmond) resulted in four category 3 and above events.

The performance commitment has not been met for 2015/16 resulting in a penalty of £0.447m this year. Due to the challenging target that has been set for this measure over the remainder of the AMP there is a risk that further penalty may be incurred in some future years. In order to calculate any penalty the ODI performance is compared against the target performance. If the performance falls within the penalty zone then we multiply the resulting difference by the penalty rate of £0.149m per event.

We are implementing the following activities to reduce the number of water quality events and bring future performance in line with our performance commitments:

i. We have delivered a comprehensive action plan to reduce the risk of further incidents by revising our discoloured water risk assessment process for planned work. We have updated the DWI on these actions and have completed classroom training to network operations staff.

ii. Additional turbidity monitors have been purchased for use by network operations staff. We have completed turbidity monitor training for network operations staff.

iii. We are implementing start-up to waste projects at water treatment works to allow for a more controlled start up following a shut down and therefore avoiding a potential water quality event.

iv. Robust site specific disinfection policies are being rolled out which clarify the requirements around disinfection for each individual works and identify the relevant monitors and instrumentation. Where additional instrumentation is required it is being installed.

v. Implementation of 24/7 manning at key water treatment works has been put in place.

Line 3 A3: Water Quality Service Index

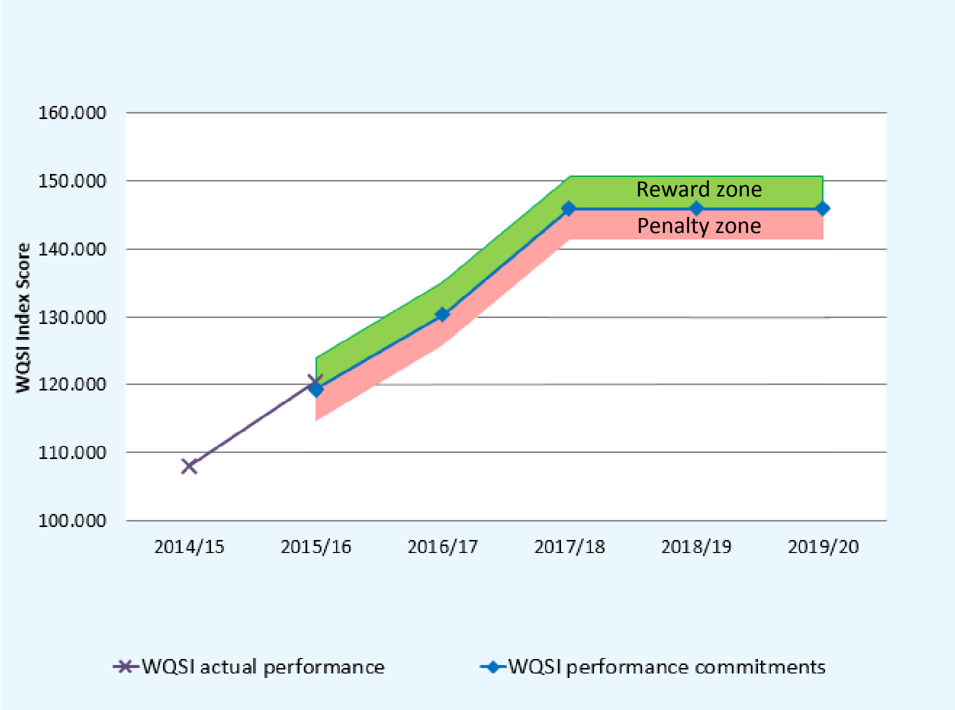
14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
109.112	**120.465**	119.3	**£0.227m (Rew)**	**£3.6m (Pen)**

Water Quality Service Index sub-measures

Sub measure	Indicative Target 2015/16	Performance 2015/16
WTW coliform non-compliance	0.04%	0.06%
SR integrity index	99.96%	99.98%
Index WTW turbidity fails	3 (number)	1 (number)
Index Mean zonal compliance	99.96%	99.96%
Distribution maintenance index	99.88%	99.89%
Contacts for water quality	9,226 (number)	9,171 (number)

Performance for the index in 2015/16 is above the performance commitment target and within the reward zone, resulting in a reward of £0.227m.

Water quality service index



In order to calculate any penalty or reward the index performance is compared against the target index performance. If the overall index score falls within the reward or penalty-zone then the incentive is calculated by multiplying the difference by a penalty rate of £0.770m per index point or the reward rate of £0.417m per index point.

We have outperformed five of the six sub-measures however, we have missed the water treatment works coliform non-compliance target. Coliform non-compliance deteriorated in 2015 compared with the previous year with nine infringements of the coliform standard compared to five infringements at 31 December 2014. Process reviews and corrective action has been taken at each of the failing water treatment works following investigations and reported to the DWI. There is not one single root cause identified and actions taken following infringements include isolating and cleaning contact tanks and taking works out of supply.

A significant element of this index score is from a reduction in customer contacts for water quality from the 2014/15 starting position to end of AMP6. This moves the company towards upper quartile performance. This reduction will also help improve the company SIM performance, both quantitative and qualitative. Water quality improvements will be delivered through a re-prioritised programme of work, including a number of operational and technological changes.

The performance commitment becomes increasingly challenging for the remainder of the AMP period and we would anticipate that at least in some of these years a penalty could be incurred.

Line 4 B1: Average minutes supply lost per property (a year)

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
13:25	**16:42**	16:00	**0**	0

Performance against this measure has been affected by two major incidents causing us to miss the performance commitment for 2015/16.

- In July there was a major loss of water supply incident at a water treatment works in Bolton, Greater Manchester, which added 3 minutes 57 seconds to the average minutes lost per property.
- In December the severe weather in Cumbria caused a major loss of water supply that added 27 seconds to the average minutes lost per property.

In order to calculate any penalty or reward the ODI performance is compared against the target ODI performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. For average minutes lost the incentive penalty rate is £5.184m and the reward is £3.978m per minutes lost per property.

2015/16 performance fell within the penalty deadband and therefore no penalty has been incurred. Planned expenditure relating to regional pressure optimisation, strategic mains, strategic valves and crossings and replacement of ‘poor condition’ mains will facilitate long-term improvements in this measure with reduction in mains burst events and increased knowledge and the facility to isolate and re-zone in the event of a burst. Expenditure such as delivery of mini alternative supply vehicles and DG3 response equipment should have an immediate impact and allow UUW to meet the reducing target throughout AMP6.

There is some potential to outperform and earn reward; however, this needs to be balanced with the potential impact of large loss of supply events as experienced this year. This makes it difficult to predict whether future performance levels will result in any penalty or reward.

Line 5 B2: Reliable water service index

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
100.321	**16.447**	100.000	**£7.974m (Pen)**	**£15.9m (Pen)**

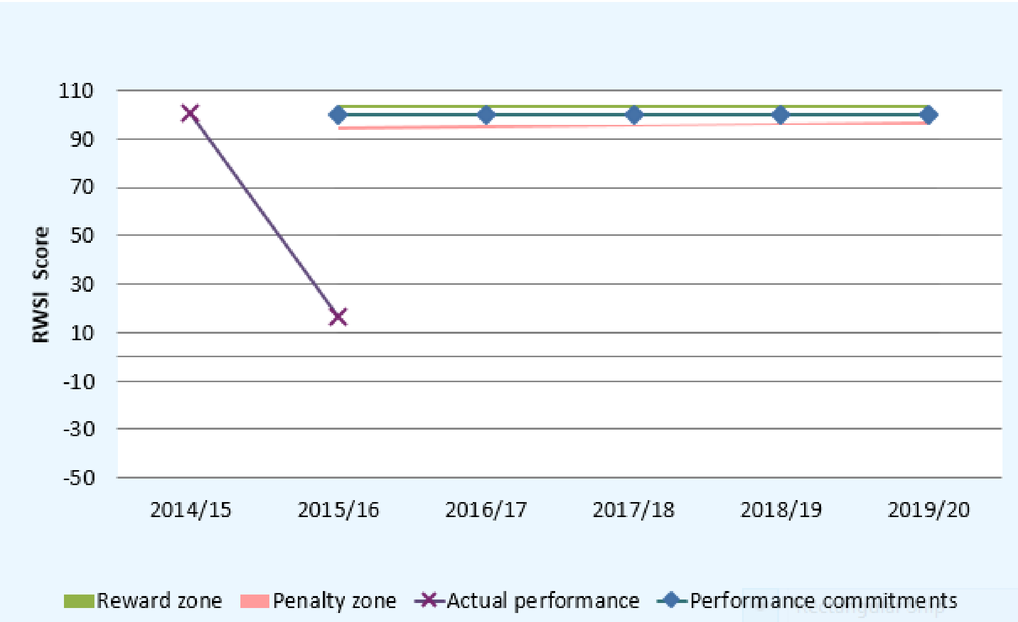
Reliable water service index sub-measures

Sub measure	Indicative Target 2015/16	Performance 2015/16
Total bursts	5,080	4,785
Interruptions > 12 hours	730	11,431
Properties below reference level at end of year (DG2)	272	262
Unwanted customer contacts for water availability	48,000	47,011

In order to calculate any penalty or reward the ODI performance is compared against the target index performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. Reliable water service index the incentive penalty rate is £7.974m and the reward is £5.970m per index point.

We have not met our performance commitment for 2015-16, and a penalty of £7.974m has been incurred.

Reliable water service index



Performance was affected by the same incidents that affected the average minutes supply lost per property measure described in the commentary for Line 4.

In July 2015 9,781 customers experienced a loss of water supply greater than 12 hours associated with a major incident at a water treatment works in Bolton and 1,020 customers in Cumbria experienced a loss of water supply greater than 12 hours as a result of the severe weather incident in December 2015. Performance against the other measures in the index (mains bursts, number of properties on the poor pressure register and unwanted customer contacts for water availability) has been good.

Performance for 2015/16 (16.447) is worse than the penalty cap (94.000) therefore the penalty is capped at the maximum penalty that can be incurred for the year, £7.974m. Our full AMP view has been set at a level that reflects the potential for a single event to impact on the level of penalty for this measure in a further year during the five-year period.

The following actions are in place to reduce the likelihood of supply losses, which should minimise the chance of a penalty being incurred:

- Improvements at water treatment works including 24 hour manning at key sites
- Implementation of a programme of work to identify and reduce the loss of supply risk caused by failure of strategic mains
- Significant focus on the restoration of supplies including additional supply interruption alternative supply kit and vehicles.

Line 6 B3: Security of supply index (SoSI)

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
100.00	**100.00**	100.00	**0**	0

In order to calculate any penalty or reward the ODI performance is compared against the target ODI performance. If the performance falls within the penalty-zone then we multiply the resulting difference by the incentive rate. For security of supply index the incentive penalty rate is £3.330m per index point.

The performance commitment for 2015/16 has been met. Security of supply index is a penalty only measure therefore no reward has been earned. Demand in the Carlisle Resource Zone has increased compared to water resources plan forecasts. To mitigate risk to SOSI in future years, the company is taking demand side actions and has improved supply side assets that will increase water available for use from 2016/17 onwards.

Line 7 B4: Total leakage at or below target

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
9.1	10.8	0.0	0	0

In order to calculate any penalty or reward the ODI performance is compared against the target ODI performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. For leakage, the incentive penalty rate is £1.458m and the reward is £0.748 per Ml/day variance.

The performance commitment for 2015/16 has been met. For the first half of the year leakage in district meter areas (DMAs) was higher than the same period in FY15. Additional leakage detection teams and repair gangs were deployed and steps were taken to optimise pressure in the network to improve performance. The additional investment combined with a very mild winter, resulted in total leakage over the full year being lower than the value reported for the previous financial year.

Line 8 B5: Resilience of impounding reservoirs

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
152.21	**161.61**	161.20	**0**	0

In order to calculate any penalty for this ODI, the actual performance is compared against the target performance. If the performance falls within the penalty-zone then we multiply the resulting difference by the incentive rate. For impounding reservoirs, the incentive penalty rate is £0.250m per risk unit.

There has been a slight outperformance of the target due to early completion of key projects, implementation of operational solutions, and reduction in cumulative risk following the completion of site surveys and analysis by the Risk Estimation Team (includes members of the UU Reservoir Safety Team and independent, government appointed, Panel Engineers). It is in customers' interests to implement these no-build operational solutions immediately as they lower risk at no major cost. The measure is a penalty only measure and therefore no reward has been accrued.

Line 9 B6: Thirlmere transfer into West Cumbria

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**2**	2	**0**	**0**

In order to calculate if any reward has been incurred the actual performance is compared against the target ODI performance. If the performance falls within the reward-zone then we multiply the resulting difference by the incentive rate. For the Thirlmere transfer to West Cumbria the incentive the reward is £1.271m per percent project completion.

The performance commitment for 2015/16 has been met with the delivery of two project milestones.

- The ODI milestone ‘Tender documents (scope book) submitted to bidders’ was achieved in October following all elements of the project having issued tenders to contractors
- The ODI milestone ‘Planning application submitted’ was achieved on 24th March 2016.

We are planning to deliver this project as soon as possible. The delivery date included in our 2015 water resources management plan is 31 March 2022. However until planning permission has been secured it is not possible to estimate when it will be possible to accelerate the project further with the potential to earn a reward on this measure.

Line 10 C1: Contribution to rivers improved - water programme (NEP schemes and abstraction changes at four Abstraction Incentive Mechanism (AIM) sites)

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**36.9**	0.0	**£0.056m (Rew)**	**£0.4m (Rew)**

For this ODI we compared our actual performance against the target performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the relevant incentive rate. For contribution to rivers improved, the penalty incentive rate is £0.111m and £0.028m for the reward per km.

We have outperformed the performance commitments for 2015/16 resulting in a reward of £0.056m this year. The calculation of the river length used in the annual assessment is based upon two factors: a) the total length of river affected and b) the actual level of abstraction below the ‘Low’ river flow threshold compared to the 2007-2013 average annual abstraction below the “Low” river flow threshold. This outperformance has been achieved through:

- Early delivery of the NEP output (6UUWR0045 - Heltondale fish migration investigation), securing 0.01km of river improved in 2015/16, ahead of the 31st March 2017 output date.
- River flows at the four AIM sites have not dropped below the low AIM threshold flow (due to weather conditions) and therefore we have achieved the maximum km of river improved for the AIM part of the measure of 36.84km.

The contribution to rivers improved performance commitment targets are based on the total improvement of each of the individual schemes, which were included in the National Environment Programme phase 3. The following three schemes were included in the National Environment Programme Phase 3 but not in phase 5.

- Eel passage on the north bank of River Lune at Forge weir – this has been provided by a third party (Lune Hydro) (1.54km)
- Implement a new prescribed flow and fish passage at our Old Water river intake on the River Gelt, Carlisle – following a challenge by UU, this was excluded from NEP5 on the grounds of disproportionate cost (0.74km)
- Implement a higher prescribed flow on the River Ellen – following a challenge by UUW, this was excluded from the National Environment Programme Phase 5 on the grounds of disproportionate cost as we plan to cease abstraction from this source in 2022 as part of the Thirlmere link scheme to supply West Cumbria (1.43km)

Overall the three schemes removed from the National Environmental Programme phase 5 are equivalent to 3.71km of rivers improved which would result in a penalty of £0.41m. However, we are aiming to offset this by outperformance of the abstraction incentive mechanism or early delivery of other schemes.

Abstraction Incentive Mechanism (AIM)

Ofwat has proposed that AIM becomes part of the Annual Performance Report for 2016/17 onwards. We have already adopted AIM through the PR14 process as part of the contribution to the rivers improved measure. The Ofwat requirements, developed in consultation with the AIM taskforce of which we are a member, will mean that AIM performance will be reported in a slightly different way to our ODI.

As described above, due to weather experienced in 2015/16 river flows did not drop below AIM thresholds. Therefore there was no abstraction below the thresholds and Ofwat AIM scores for all four sites is zero for 2015/16. Further discussion of AIM will be provided in our Annual Water Resources Review.

Line 11 D1: Delivering our commitments to developers, local authorities and highway authorities

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
93.46	**95.19**	91.00	Reputational	Reputational

We have outperformed our performance commitments in 2015/16 with the overall percentage compliance increasing from 93.46% to 95.19%. This is a reputational measure so there is no associated reward. We have reviewed our processes for responding to requests from developers, local authorities and highway authorities and the changes we have implemented have resulted in an improved performance for 2015/16. This was a new measure for AMP6 that we highlighted would be further developed during the AMP. Following agreement of the performance commitments with Ofwat, Water UK introduced a new developer services scorecard with targets tougher than the original performance commitments agreed with Ofwat. We are aiming to outperform the original Ofwat performance commitments and deliver a better standard of service.

Line 12 E1: Number of free water meters installed

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
40,102	**27,197**	61,644	Reputational	Reputational

We have underperformed the regulatory target for 2015/16. This is because there has been a greatly reduced demand for free meter options in the current year. There was a 31% reduction of free meter option applications in 2014/15 and this trend has continued into 2015/16 with a further 6% reduction of applications. There has been a low increase in the average water bill in the last few years, which may have contributed to the drop in demand for free meter options.

The target was based on historical performance and predictions in customer behaviour using the UKWIR econometric opting model. It also included 18,000 installations facilitated by additional pipework alterations or policy charges plus 25,000 from a targeted campaign to customers in financial hardship.

To address the lower than expected meter uptake we have initiated a number of actions. We included a promotional leaflet in 150,000 second half year bills, which were sent out to customers on unmeasured tariffs. We have also sent a total of 37,880 letters and emails to customers with certain demographics using Acorn Bandings (e.g. retired, empty nesters and settled suburban) all of whom are likely to significantly reduce their charges by having a meter fitted. Customers who have had an external boundary box installed previously, as part of a lead renewal, and may benefit from having a meter fitted have also been contacted. We have sent 1,959 letters to these customers. These letters and emails were supplemented with other promotional activity, for example promotion on Facebook and Twitter in order to try and increase uptake.

1.1b) Wastewater Service performance commitments

Performance against our wastewater service performance commitments is set out in the table below.

2015/16 Annual performance summary

Wastewater Operational Performance Summary (2015/16)

Performance Commitment	Actual	performance commitments		Incentive	
	2015/16	2015/16	Pass / Fail	Impact	Value (£m)
S-A1: Private sewers service index	91.69	<= 100	Pass	Reward	7.376
S-A2: Wastewater network performance index	90.95	<= 106.2	Pass	Penalty only	0.000
S-B1: Future flood risk	16,472	<= 16,511	Pass	Reputational	N/A
S-B2: Sewer flooding index	100.77	<= 93.1	Fail	Deadband	0.000
S-C1: Contribution to bathing waters improved	0.47	>= 0.36	Pass	Penalty only	0.000
S-D1: Protecting rivers from deterioration due to population growth	48.02	>= 1.8	Pass	Penalty only	0.000
S-D2: Maintaining our wastewater treatment works	91.48	<= 83	Fail	Deadband	0.000
S-D3: Contribution to rivers improved (Km)	0.75	>= 0.75	Pass	At target	0.000
S-D4a: Wastewater (category 1 & 2) pollution incidents	4	<= 4	Pass	At target	0.000
S-D4b: Wastewater category 3 pollution incidents	136	<= 204	Pass	Reward	3.278
S-D5: Satisfactory sludge disposal	100.00	<= 100	Pass	At target	0.000
Wastewater Service net Reward					10.654

Line 13 S-A1: Private sewers service index

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
95.20	91.69	100.00	**£7.376m (Rew)**	**£16m (Rew)**

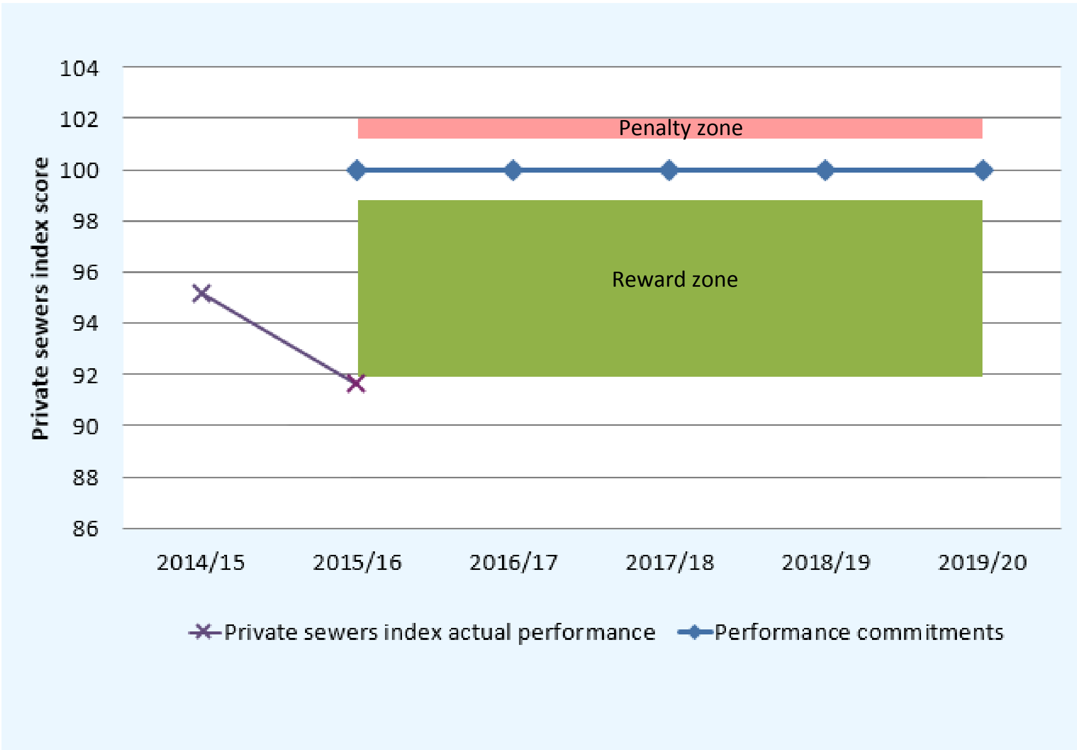
Private sewers index sub-measures

sub measure	Indicative Target 2015/16	Performance 2015/16
Internal Hydraulic Incidents	8	2
Internal FoC Incidents	393	416
External Hydraulic Incidents	38	10
External FoC Incidents	4,782	4,595
Collapse	467	361
Blockage	15,518	13,906
Pollution	4	5

This performance commitment measures the performance of our ex private sewer network, via an index of sub measures. The performance target has been set at a level of performance across AMP6 that is consistent with our performance in AMP5. The measure has financial penalties if performance deteriorates and rewards to encourage the company to improve performance and minimise customer impacts.

In 2015/16 we outperformed our performance commitment achieving an index score of 91.69 against a target of 100, this has earned a reward of £7.376m. This is a relatively new measure so there could be significant future variability in performance, although we do expect to continue to perform well on the measure and to outperform in at least some of the remaining years of the AMP6 period.

Private sewer index



The graph above shows the continuing improvement of the private sewer index.

The measure is an index that comprises of seven measures as shown in the table above. The sub-measures are weighted and summed to produce the index score with the overall index score rather than performance against any individual sub measure being used as the basis for the incentive calculation. If the overall index score falls within the penalty or reward-zones then the incentive is calculated by multiplying the difference by a penalty rate of £4.204m per index point or a reward rate of £1.069m per point.

As shown in the table above we have outperformed the majority of the sub measures, although internal flooding other causes and pollution incidents from the ex-private network were above the annual target.

We believe that the majority of this improvement has been driven by the continued embedding of our operating model, which seeks to resolve incidents quickly and effectively and to correct operational defects that could have resulted in future or repeated incidents. It is however, possible that the wetter than average weather experienced in the North West this year may have had a positive impact on the performance of these smaller diameter sewers.

Line 14 S-A2: Wastewater network performance index

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
94.30	**90.95**	106.20	0	0

Wastewater network performance index sub-measures

Sub measure	Indicative Target 2015/16	Performance 2015/16
Rising Main Failures	40	51
Collapses	444	261
Blockages	8,754	7,473
Equipment Failures	2,403	2,704

Our sewer flooding index consists of five sub-measures: repeat flooding, internal and external hydraulic flooding and internal and external flooding other causes. Each of these sub-measures is weighted and then summed together to generate an index score. We compared the overall index performance against the target performance. If the performance falls within the penalty or reward-zone then we multiply the resulting difference by the incentive rate. For sewer flooding index the incentive rate is £2.032m per index point for penalty and £1.050m per point for reward.

In 2015/16, we have outperformed against this measure with an index score of 90.95 against a target of 106.2. The measure is incentivised by a penalty only so no reward has been achieved through this significant outperformance. We anticipate that we will continue to outperform against this measure for the majority of the years within the AMP and expect the trend of a reducing number of blockages and collapses to continue.

We believe that the improved performance is primarily as a result of the continued embedding of our operating model, which seeks to resolve incidents quickly and effectively and address operational defects that may cause future or repeated incidents and affect our customers.

Line 15 S-B1: Future flood risk

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**16,472**	16,568	Reputational	Reputational

The future flood risk measure of success uses overland flow hydraulic models to assess the risk that each property in the North West faces from sewer flooding. The aim of this measure is progressively to reduce the numbers of properties at modelled risk over AMP6. Our target for the first year of the AMP was to remove 57 properties from this list. Through a combination of data reviews and capital work we have outperformed this and removed 96 properties. 59 properties have been removed as a result of the construction of capital projects to address hydraulic flooding and 37 as the properties have been fitted with appropriate flood mitigation devices. This measure is reputational only and so no financial penalty or reward will be applied.

Further removals will be made through the AMP as and when further capital projects, appropriate mitigation or sustainable drainage schemes are delivered. A number of the removals during year 1 were due to work that was completed at the end of AMP5. We therefore expect the rate of removal to be lower across the remaining years of the AMP and it is likely that we will finish the AMP below target for this measure.

Line 16 S-B2: Sewer flooding index

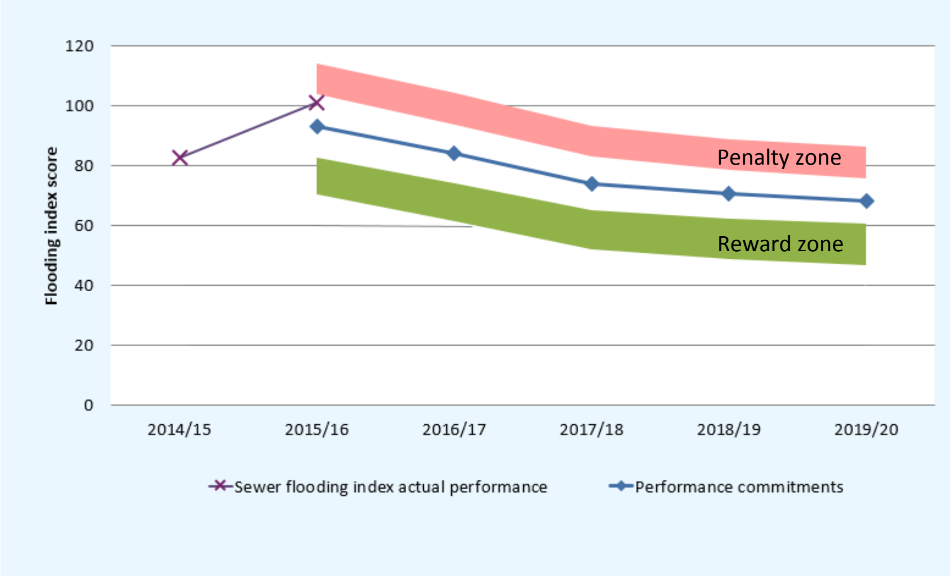
14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
82.50	**100.77**	93.10	**0.00**	**£21.7m (Pen)**

Sewer flooding index sub-measures

Sub measures	Indicative Target Performance 2015/16	Actual Performance 2015/16
Repeat Flooding	367	377
Internal Hydraulic Incidents	100	147
Internal FoC Incidents	607	839
External Hydraulic Incidents	499	455
External FoC Incidents	3,878	3,391

Our sewer flooding index consists of five sub-measures: repeat flooding, internal and external hydraulic flooding and internal and external flooding other causes. Each of these sub-measures is weighted and them summed together to generate the index score. We compare the overall index performance against the target performance. If the performance falls within the penalty or reward-zone then we multiply the resulting difference by the relevant incentive rate. For the sewer flooding index the incentive rates are £2.032m per index point for penalty and £1.050m per point for reward.

Sewer flooding index



We want to reduce the number of customers who suffer from flooding and have a challenging target to significantly reduce our sewer flooding index score over the AMP. The end of year performance for FY16 was 100.77 index points, which is higher (worse) than the performance commitment target of 93.1 but within the deadband of 103.7, so does not result in a penalty. Our performance in 2014/15 was better, at 82.5, although there appears to be no clear trend in performance with significant fluctuation each year. This changing performance is likely to be because of the variation in weather patterns, as this measure is particularly susceptible to wetter weather.

During this financial year, we suffered from a significant increase in rainfall. Seven of the twelve months had a rainfall above the 1980-2010 Met Office average. This compares to 2014/15, when only four months were above average. Over the Christmas period, the North West was hit by three exceptional storm events, Desmond, Eva and Frank, which caused significant and prolonged flooding to the northern parts of our region. River levels increased causing outfalls to submerge, silt entered the network reducing capacity and ground was saturated increasing levels of overland flow. The increasing rainfall levels inevitability led to an increase in the number of flooding incidents, with all the sub-measures increasing compared to last year except for external flooding due to other causes.

We will continue to embed our operating model, which seeks to resolve incidents quickly and effectively for customers. The model proactively identifies and resolves sewer defects, which should contribute towards reducing future flooding incidents. Due to the increasingly difficult target and the impact that weather and external factors can have on the index score, the measure will be extremely challenging to achieve for the remaining years of AMP6. There is therefore a risk that we will incur a penalty in some of the remaining years of the AMP.

Line 17 S-C1: Contribution to bathing waters improved

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**0.47**	0.36	**0**	0

This performance commitment measures the programme of work which we have agreed with the Environment Agency to improve the impact that our assets have on bathing water compliance. Each project in this programme has been an assigned an impact upon bathing water compliance called a bathing water equivalent (BWE), which is proportionate to the impact that completing the project will have on a designated bathing water. The measure is penalty only, with a penalty rate of £10.0m per bathing water equivalent.

In 2015/16 we outperformed the annual performance commitment target of 0.36 BWE. We delivered our year 1 schemes on time including a scheme at Allonby wastewater treatment works and the installation of event duration monitors at bathing and shellfish water sites required by the Environment Agency. We also delivered our planned year 2 scheme for Coastal – Misconnections (Contaminated Surface Water) - early.

Although many of the projects in this programme are complex and at an early stage of development, we anticipate that we should be able to deliver this programme of work to schedule and as such would not incur a penalty.

Line 18 S-D1: Protecting Rivers from deterioration due to population growth

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**48.02**	1.80	**0**	0

This measure seeks to protect rivers from deterioration as a result of an increase in population. It consists of a programme of work, which will be delivered across AMP6. A penalty incentivises this measure. This programme of work is flexible so that it can respond to the changing growth needs within the North West. We are currently ahead of target for this measure. For this ODI we compare our actual performance against the target performance. If the performance falls within the penalty-zone then we multiply the resulting difference by the incentive rate. For protecting rivers from deterioration, the penalty rate is £0.058m per km.

We originally planned to deliver one project in the first year of the AMP at Kingsmill WwTW. However, the housing development that triggered this need was not approved at planning and therefore the work was not required. A new development at the Albion works site facilitated the need for a project to protect the receiving watercourse. The Moston West WwTW project was finished in March 2016 providing protection to the receiving watercourse and enabling us to meet the AMP6 first year km of river protected target. Delivery of this scheme will help to keep us ahead of programme as the project provided 48.02 km of rivers protected which is substantially higher than that associated with the original project at Kingsmill WwTW, which was for 1.8km.

Line 19 S-D2: Maintaining our wastewater treatment works

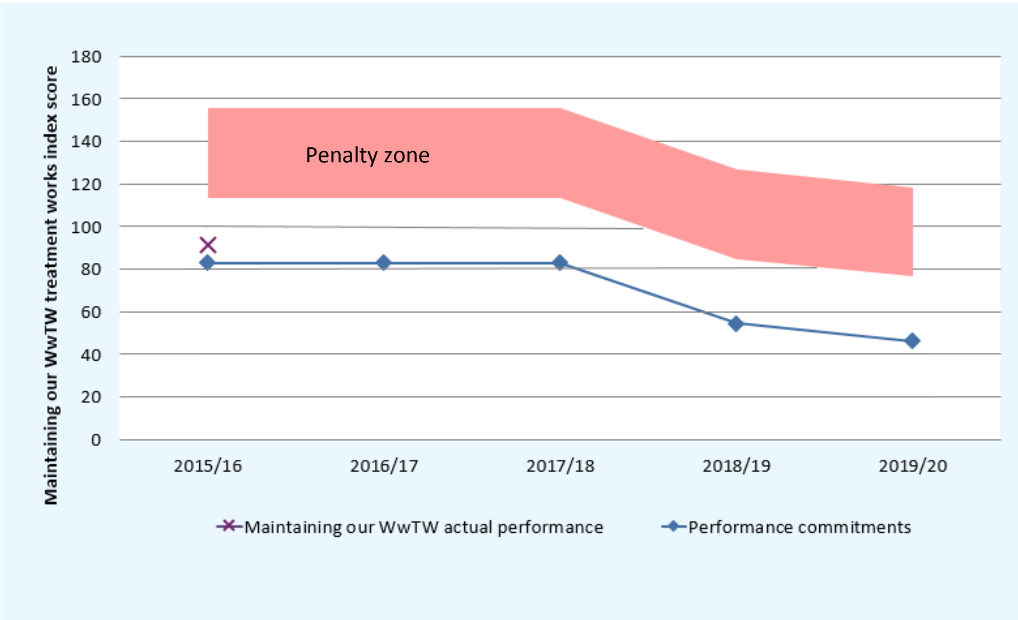
14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
94.990	91.485	83.000	**0**	**£13.8m (Pen)**

This performance commitment is an index, which assess the number of wastewater treatment works (WwTW) that fail their consent, together with the number that operate at medium and high risk of failure. There are no individual sub-measure targets for this measure, which becomes progressively tighter throughout AMP6.

This is a penalty only measure. The size of any penalty is calculated by comparing our actual index performance against the target index performance. If the performance falls within the penalty-zone then we multiply the resulting difference by the penalty rate of £0.572m per index point.

In 2015/16 we underperformed against the performance commitment target of 83.0 points, achieving 91.485 index points. This score was within the penalty deadband of 113.3 and so no penalty has been incurred.

Maintaining our WwTW



The relatively high index score is largely attributable to the failure of two size band 5 wastewater treatment works (Alsager and Longton), two band 6A wastewater treatment works (Congleton and Leigh) and a band 6B wastewater treatment works (Liverpool).

To help to mitigate the risks associated with this measure, early and targeted maintenance investment has been incurred at many of our treatment works. A significant project has also recently been completed at our Liverpool WwTW, with major work ongoing at our Davyhulme and Oldham works which will help to improve performance as we move through the regulatory period.

Although we will continue to manage and mitigate the risks associated with this measure through targeted capital investment and by operating our works to the highest standard, the performance commitment becomes increasingly challenging across the remainder of the AMP. There is therefore a risk that we may not achieve the target in one or more of the remaining years of the AMP and incur a penalty.

Line 20 S-D3: Contribution to rivers improved - wastewater programme

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**0.75**	0.75	**0**	0

This measure tracks the delivery of our National Environmental Programme (NEP) obligations. This will be achieved through the delivery of an extensive programme of capital projects and investigations throughout AMP6. This measure has financial penalties and rewards, with the scale of any incentive being assessed by comparing our actual performance against the target performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the relevant incentive rate. For contribution to rivers improved, the penalty incentive rate is £0.111m and £0.028m for the reward.

Since the Final Determination we have received a revised NEP from the Environment Agency (NEP5) and have also completed our 2014/15 blind year reconciliation which compared actual performance in 2014/25 against the position assumed in the PR14 final determination. As a result of this, the programme that we deliver will be inconsistent with the targets we agreed to as part of the Final Determination. We have recently written to Ofwat setting out the changes to our programme and have proposed an alternative performance commitment target for this measure, which reflects the current commitment. The outcome of this correspondence will determine the impact on our future performance and any reward or penalty incurred across the AMP.

Line 21 S-D4a: Wastewater serious (category 1 and 2) pollution incidents

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
2	**4**	4	**0**	0

This measure tracks the number of serious pollution incidents that occur because of the performance of our wastewater assets. This is a penalty only measure, with the scale of any penalty being assessed by comparing our actual performance against the target performance. If the performance falls within the penalty-zone then we multiply the resulting difference by the penalty incentive rate of £0.420m per incident.

In the first year of AMP6, we have achieved our performance commitment, with an outturn position of four incidents. Historically this measure has shown some variation and as the target reaches zero towards the end of the AMP, this variation could increase the chance of a penalty.

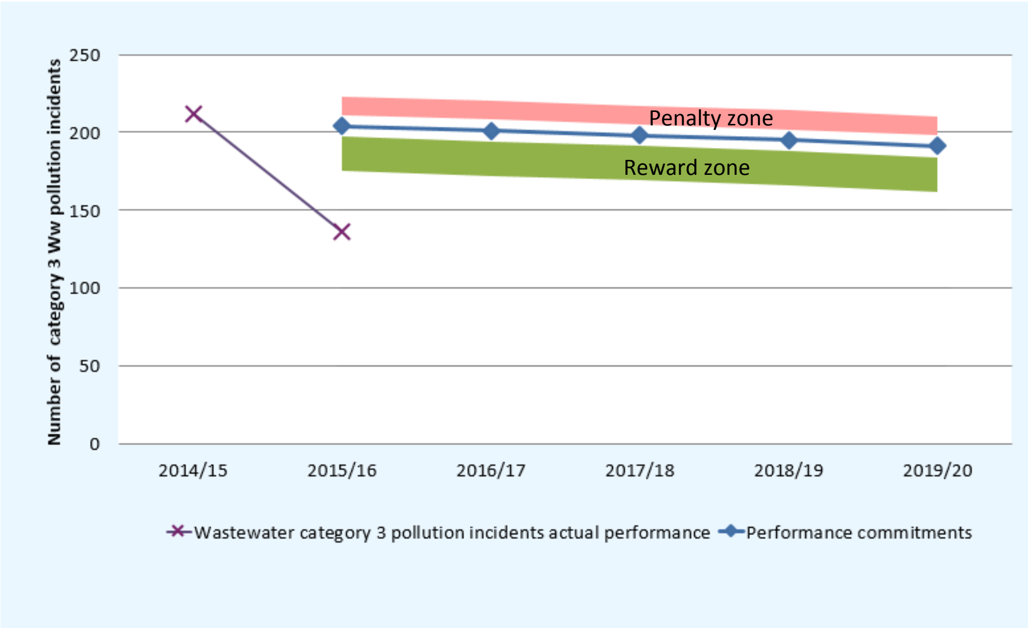
Line 22 S-D4b: Wastewater category 3 pollution incidents

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
212	**136**	204	**£3.278m (Rew)**	**£9.8m (Rew)**

This measure assesses the number of category 3 pollution incidents that occur from our wastewater assets each year of the AMP. This measure has both penalties and rewards, with the scale of any incentive being assessed by comparing our actual performance against the target performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the relevant incentive rate. For category three pollution incidents, the penalty incentive rate is £0.282m and £0.149m for the reward.

In 2015, we have significantly outperformed our category 3 pollution target with 136 incidents against a target of 204. This performance has enabled us to earn the maximum reward of £3.278m.

Wastewater category 3 pollution incidents



We believe that the improved performance was primarily as a result of, the continued embedding of our operating model, which seeks to resolve incidents quickly and effectively and address operational defects that may cause future or repeated incidents and affect our customers, and the environment.

We expect to continue to perform well against this measure and to be able to outperform the target and earn a reward in one or more of the remaining years of the AMP.

Line 23 S-D5: Satisfactory sludge disposal

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
100	**100**	100	**0**	0

This performance commitment measures how well we operate our sludge treatment and disposal activities with respect to public health, environmental protection and statutory compliance. This is a penalty only measure, with the size of any penalty calculated by comparing our actual percentage compliance against the target of 100% compliance. If the performance falls within the penalty-zone then we multiply the resulting difference by the penalty incentive rate of £5.108m per percentage point.

Achieving the target level expressed in the measure will help to maintain the confidence of both our regulators and stakeholders in the agricultural sector and wider food chain that use our treated sludge as an alternative to fertiliser.

We have achieved 100% compliance in the first year of the AMP and are on track to deliver this level of performance throughout the remainder of the AMP.

1.1c) Retail and customer service performance commitments

Performance against our retail service outcomes is set out in the table below

Retail Service Operational Performance Summary (2015/16)

Performance commitment	Actual	Performance commitments		Incentive	
	2015/16	2015/16	Pass / Fail	Impact	Value
A-1: Service incentive mechanism (SIM)	TBC	UQWASC[1]	TBC	TBC	TBC
R-A2: Customer Experience Programme[2]	0.001	>= 1.053	On track	Deadband	N/A
B1: Customers saying that we offer value for money	50	>= 49	Pass	Reputational	N/A
B2: Per household consumption	303	<= 294	Fail	Reputational	N/A

[1] Upper quartile for water and sewerage companies.
[2] This ODI only would only earn a penalty or reward in 2019/20, annual performance assesses if delivery is on track to achieve this this target. ODI can only earn a penalty/reward in 2019/20.

Line 24 A-1: Service incentive mechanism (SIM)

14/15 (Actual)	**15/16 (Actual)**	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**TBC**	UQWASC	**n/a**	n/a

SIM sub-measures

sub measure	2015/16 performance
SIM quantitative	95
SIM qualitative	4.27
SIM Combined	82

Our combined SIM score 2015/16 was 82. However until Ofwat report annual 2015/16 SIM combined performance for all water companies, we are unable to confirm our relative position for 2015/16 or to predict our relative position for the remainder of the AMP6 period.

A number of major incidents in 2015/16 have impacted the SIM qualitative score in 2015/16, these included:

- A water quality incident at Franklaw water treatment works, which resulted in customers needing to boil their water.
- Persistent severe weather in the winter of 2015/16 which caused loss of water supply, and a significant increase in the number of sewer flooding incidents.

The scale of the customer impact of these major incidents generated an increased volume of customer contacts, compensation and Guaranteed Service Standards (GSS) failure payments. Despite these incidents there has still been an improvement in the SIM quantitative score from 99 in 2014/15 to 95 in 2015/1, which we believe demonstrates an improvement in underlying performance.

Line 25 R-A2: Customer Experience Programme

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**£0.001m**	£1.053m	**N/A**	0

This programme is on track to deliver the intended outcome within the AMP6 period.

The annual target for this measure of success was not be achieved in 2015/16 due to a change in the expected commissioning of the project compared to that set out in our PR14 business plan and reflected in the final determination. At the time of our submission to Ofwat, the Customer Experience Programme was at a relatively early stage of project definition. Since the submission, we have carried out the detailed design phase, agreed the software technology and appointed a solution integrator. This work has resulted in a change in implementation approach and timescales, which is designed to ensure that the new technology is delivered in a seamless way with no customer impacts.

Line 26 R-B1: Customers saying that we offer value for money

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
N/A	**50%**	49%	**Reputational**	**Reputational**

We have met the performance commitment for 2015/16. This is a reputational measure with no associated financial reward. The scores have been impacted by the major incidents referenced in the commentary for Line 24 A-1: Service incentive mechanism (SIM).

Line 27 B2: Per household consumption

14/15 (Actual)	15/16 (Actual)	15/16 (PC)	15/16 Incentive	Incentive AMP6
304	**303**	<=294	**Reputational**	**Reputational**

We have not met the performance commitment for 2015/16. This is a reputational measure with no associated financial penalty. Per household consumption for the year is 303 l/prop/d. Although this is higher than our performance commitment, it is in line with Met Office modelling of domestic consumption for 2015/16, which is 4.45% higher than that for normal year (WRMP15 Base Year).

1.2) Wholesale totex

Background: totex allowances and incentive mechanism

The PR14 final determination set initial total expenditure allowances for the wholesale water and wholesale wastewater services. The total allowed expenditure for the water service was £2.397bn (in 12/13 prices) (£2.356n excluding pension deficit recovery costs). The allowance for the wastewater service was £2.979bn (in 12/13 prices), (£2.940bn, excluding pension deficit recovery costs).

The PR19 process will review how actual expenditure compared against the PR14 assumptions, with variances against the initial assumptions being accounted for through the totex incentive mechanism This mechanism is quite complex, although on a simplified basis there are three main principles;

- For incentivisation purposes, all expenditure incurred in the five year period is treated the same whether that expenditure is capital expenditure (“capex”) or operating expenditure (“opex”.)
- Variances against the expenditure levels assumed within the FD are managed through two processes:
    - The opening regulatory capital value (RCV) for the AMP7 period is revised up or down accordingly.
    - There is a pain/gain mechanism, which provides a PR19 revenue reward for reductions in expenditure levels and a revenue penalty for increases in expenditure levels.
- These two processes mean that if we can deliver the programme for a lower level of totex then this saving would be shared on a broadly equal basis between customers and the company. Equally, if we found that we needed to spend more money than was allowed at PR14, then both the company and customers would contribute towards this additional expenditure, again on a broadly equal basis.

Some costs, including compensation payments and pension deficit recovery costs, are excluded from this incentive mechanism, which means that any increase in expenditure would not be shared with customers. The remaining costs which are subject to the cost sharing incentive mechanism are described in the business plan and APR tables as menu costs.

2015/16 expenditure summary

Totex expenditure in 2015/16 was significantly higher than assumed in either the final determination or in our business plan.

The key reason for this increased expenditure is because we have chosen to accelerate our expenditure programme to help to secure the performance improvements required to meet the challenges of our AMP6 outcomes and to secure longer term operational efficiencies.

In addition, we have committed to undertake additional work on our water treatment and distribution assets to reduce future risk levels, following the water quality incident in Lancashire. We have also incurred additional expenditure as a result of delays to a number of wastewater environmental quality projects as a consequence of third party issues.

We have also used the first year of the AMP6 period to develop a plan to meet the efficiency challenge set in the final determination. Although it is still comparatively early in the five-year programme, we now believe that we should be able to deliver the initial requirements of the programme, together with the additional work in the water service and delayed work in the wastewater service, for a total expenditure level which is broadly in line with the final determination allowance.

A comparison of the variance between our actual wholesale expenditure in 2015/16 and the expenditure initially allowed in the PR14 final determination is set out below.

Variance analysis

Table 2B sets out the build-up of the 2015/16 expenditure in the water and wastewater services, with Table 4B comparing this expenditure against the final determination allowances. It also sets out the proportion of this expenditure that is excluded from the incentive comparison.

Variance between allowed totex and actual totex from Tables 4B (12/13 prices)

	Water £m	Wastewater £m
Actual totex	**506.6**	**672.6**
Allowed totex	**457.6**	**561.8**
Increase in expenditure (from Table 4B)	**+49.0**	**+110.8**

Direct comparison between the actual totex and the allowed totex needs to take account of two changes to investment categorisations:

- Infrastructure capital maintenance expenditure (IRE) is included within opex in the actual expenditure, whereas it was included as a separate capex line in our business plan and the final determination.
- Actual expenditure on assets that are used by more than one service (for example IT systems), are now included within the service that is the principal user of that asset, with subsequent recharges from other services that use that asset. In the final determination this expenditure was proportionally allocated between the services that would use the asset.

As totex allowances are set as a combined total value rather than as separate capex and opex allowances the change in allocation of IRE expenditure does not impact upon the overall totex variance. Although the change to principal use accounting has increased the reported spend in wastewater and reduced the reported spend in water, by approximately £35m. The impact of this change on the totex variances is shown in the table below.

Revised variance between allowed totex and actual totex (12/13 prices)

	Water £m	Wastewater £m
Increase in expenditure (from Table 4B)	**+49**	**+111**
Principal use reallocation	**+35**	**-£35**
Increase in expenditure (from Table 4B)	**+84**	**+76**

Comparison of actual totex to allowed totex

The variance between the actual level of totex incurred in 2015/16 and the level of totex assumed in the final determination is a result of three main factors; changes in scope, timing of the programme or efficiency.

Changes in scope

Additional opex expenditure has been incurred in the water service as a result of the costs associated with the impact of the incidents that occurred during the year. The compensation and GSS payments associated with these incidents are excluded from the totex incentive assessment and as such are fully borne by the company. Additional capital expenditure is also being undertaken or will be required as a consequence of the Lancashire incident, to secure our performance and substantially reduce the risk of similar incidents occurring in the future. Additional expenditure has also been required on Business Retail Market Reform, which was not allowed for in the final determination.

In the wastewater business other than the Market Reform costs, there are no material changes in scope. However, some expenditure that was expected to be undertaken in AMP5 has needed to be undertaken in AMP6. The majority of this expenditure is associated with environmental quality projects on combined sewer overflows and wastewater treatment works, which discharge to the Manchester Ship Canal and have been delayed by third party issues.

Changes in timing

We have chosen to accelerate many of our investment programmes and have invested substantially in information and operational technologies to help secure the early performance improvements and risk reduction initiatives that are required to meet our outcome delivery and efficiency targets.

As the programme that we are now delivering is materially different in some areas than was assumed in our business plan, it is not possible to undertake a direct "project for project" comparison to determine the level of the acceleration in the programme. We have therefore, assessed the relative acceleration in the programme by comparing the current annual profile of our capital expenditure to the profile of the capital expenditure included within our business plan.

Efficiency

We have included all cost reduction activities within this category, from project level cost efficiencies to more strategic revisions to strategies for achieving our outcomes or managing risk.

We have also assessed the level of efficiency at aggregate level rather than at project level by comparing the total planned level of expenditure over the full five-year period, (excluding the changes in scope) against the expenditure included for this scope of work within the final determination.

Our current business plan, which has factored in the suite of efficiency initiatives outlined earlier in this section of the report, has demonstrated that we should be able to drive out further efficiencies from our overall capital expenditure on both the water and wastewater service.

On this basis and at an aggregate level we believe that we will be able to find sufficient efficiency relative to the position assumed in our PR14 business plan submission, to allow us to accommodate the additional scope and still deliver the overall wholesale programme for approximately the level of capex allowed in the final determination.

The exact split between these three factors is dependent upon a number of factors including assumptions about future years' risks and efficiencies and as such at this stage it is not appropriate to attempt to quantify the specific value associated with each of these factors.

Excluded Costs

The costs excluded from the totex incentive assessment (menu) as reported in Table 4B comprise three main components:

- Pension deficit recovery costs are higher than allowed in the final determination
- Third party costs are broadly as expected
- Other costs are made up from two main elements
    - "transition expenditure" (expenditure incurred in AMP5 on AMP6 outputs), which is displayed as a negative value and is slightly lower than assumed in the FD due to exclusion of costs in 2013/14, and
    - Compensation and other guaranteed standards payments, which as a consequence of the no supply incidents and the Lancashire incident have more than offset the water service transition expenditure to result in a net positive exclusion.

Impact of the 2015/16 expenditure on the RCV

Table 4c sets out the 2015/16 RCV determined at the PR14 final determination and shows the revisions to this position as a result of the totex over or underspend and net rewards incurred through the outcome delivery incentives.

As can be seen in Table 4C the projected shadow RCV is £92m higher than the RCV determined at the FD. The increase in expenditure in the year has resulted in an increase to the RCV of £81m.

The outperformance of the wastewater ODIs has also resulted in an increase of £11m. The underperformance and net penalty on the water business ODIs would be reflected by a revenue penalty and as such has not impacted upon this year's shadow RCV value. It should be noted that the ODI impacts would only apply based upon five-year performance and as such if penalties are incurred against the wastewater ODIs in the remaining years of the period, then the uplift to the RCV would be removed.

Unit cost analysis of our expenditure

Table 4D and 4E analyse the wholesale water and wastewater totex by investment type and operating unit and nature of the investment.

The operating expenditure within each operating unit is then divided by an operating unit specific metric to determine a unit cost measure for each operating unit.

Whilst in theory these unit costs should be comparable between companies, it is worth noting that our prior years' experience of similar comparative tables suggests that differences between companies in terms of asset configurations and performance requirements, together with allocation of IRE, cost allocations between operating units, capitalisation policies and year on year cost variances are likely to make meaningful comparisons between companies difficult.

Copies of Tables 4D and 4E are provided in section 2.6 of the APR. UUW's 2015/16 upstream services methodology and accompanying commentary are published on our website.

1.3) Retail expenditure and revenues

Household Retail

Background

The household retail (cost to serve) price control is designed to allow companies to recover sufficient revenue from household customers to fund the average operating costs of a retail business.

For companies whose historic and forecast costs were above industry average, allowed costs were set using a glide path over a three-year period to reduce from forecast cost to serve levels to average cost to serve levels. A specific cost uplift was allowed for UUW to reflect the higher costs of operating in the North West of England as a consequence of the relatively high levels of deprivation in the region. Additional costs were also allowed to reflect the company's proposals to implement a new IT led Customer Experience Programme. These new IT depreciation costs are subject to a specific outcome delivery incentive mechanism, which was designed to ensure that if this expenditure is not incurred then these costs will be returned to customers through the PR19 process.

Separate annual cost to serve allowances were defined at PR14 for metered and unmetered customers and dual (both water and wastewater) and single (water or wastewater only) service customers. With total revenue allowances being determined by multiplying these cost to serve allowances by the assumed customer numbers within each category.

The cost to serve incentive mechanism has three main principles;

- Initial cost to serve allowances are fixed and do not increase year on year to reflect inflation.
- The allowances fund all retail operating costs, including depreciation on new capital expenditure. Expenditure for demand side water efficiency and customer side leak repairs is also included where the activity is not for wholesale purposes.
- Any over or underspend against the cost to serve allowed is paid for or retained wholly by the company and will not affect future customer bills.

2015/16 performance

Over recent years we have been developing and implementing a plan - the Customer Experience Programme - which is designed to improve our customer service and to reduce our operating costs. We have made a good start to our Customer Experience Programme and have carried out the detailed design phase, agreed the software technology and appointed a solution integrator.

Our 2015/16 household retail operating costs and revenues are set out in Table 2C and 2F, with Table 4F analysing these costs by the type of retail service provided (dual/single and metered/un-metered).

Operating costs

Table 2C and 4B show that total Household retail operating costs in 2015/16 were £120.3m. This figure is in line with the operating costs allowed in the PR14 final determination.

The changes to the Regulatory Accounting Guidelines (as defined in paragraph 2.3 of RAG 2) regarding the accounting for the depreciation of legacy assets has resulted in an additional depreciation charge to Household of £5.1m for which there was no allowance within the retail price control. This additional cost has been offset by achieving efficiency savings above those assumed in the Ofwat allowance.

Revenue

Table 2F shows that total Household retail revenue in 2015/16 was £129.8m. This figure is slightly lower than the revenue assumed in the PR14 final determination of £132.1m.

Actual customer numbers were 8,700 lower, and FMO fits were c.34,500 lower than those used to calculate the indicative retail revenues allowed in price limits for 2015/16, resulting in a reduction in actual allowed retail revenues of £0.6m. Our social and support tariffs have driven a further £1.7m reduction in retail Household revenues.

Operating profit

Table 2A shows the operating profit for the four price controls. For the Household retail price control operating profit before recharges in 2015/16 (retail revenues minus operating costs) was £9.5m, which is broadly in line with the expectations included within the final determination.

Table 2A also reports operating profit after recharges, this value of £5.3m is lower because recharges from Household retail are £4.2m higher than recharges to Household retail.

Bad Debt

Deprivation remains the principal driver of our higher than average bad debt and the North West has a high proportion of customers impacted by welfare reform and claiming universal credits. Household bad debt costs increased in 2014/15 to 6.3% of regulated revenue. This was largely due to a detailed review of the trade debtors ledger and operational debt processes last year.

We have maintained our strong focus on improving our bad debt and cash collection performance, including working with Equifax to share customers' credit data to encourage those who can pay to do so. We also have a wide range of schemes to help those who are genuinely struggling to pay. This focus has resulted in household bad debt performance for 2015/16 improving to 5.1% of regulated revenue.

Non-household Retail

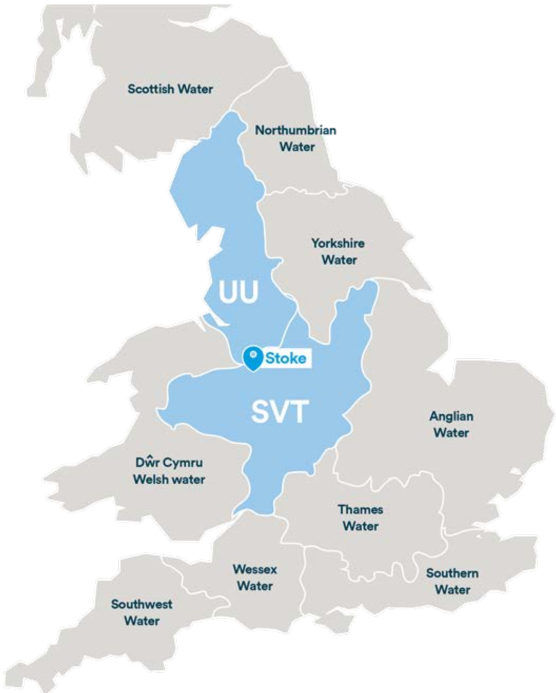
Table 2G and 2F, within section 2.3, set out the 2015/16 Non-household water and wastewater revenues by customer type. Wholesale revenues are discussed below.

Non-household total operating costs allowed within the retail revenue price limits for 2015/16 were £22.4m. The actual reported costs on line 2C.11 were £13.5m greater because of: £3.7m one-off Market Reform costs to prepare for market opening, for which there was no allowance; £3.6m additional depreciation charge mainly because the allowance assumed a gradual ramp up of depreciation across the AMP; and £6.2m higher costs because of not meeting efficiency savings assumed in the FD and temporarily increased costs following the implementation of a new billing system at the end of 2014.

We announced in March that we intended to form a joint venture with Severn Trent in which we would combine both business retail operations ahead of the English market opening to competition in April 2017. With UUW already being an active player in the Scottish market with over 3500 sites and a net annualised revenue of £18 million, the move represented the latest phase of our strategy for the competitive business retail market in England and Scotland.

Business Retail Joint Venture – Water Plus

Well positioned for full market opening



Following Competition and Markets Authority approval the transaction with Severn Trent was completed on 1st June 2016. In 2014/15 we implemented a new customer relationship system for business retail and this will be the core system for the new joint venture. Severn Trent will migrate its business customers on to this platform later this year.

Our intent is for this new company, ‘Water Plus’, to be a fresh, competitive operation providing customers with a very attractive choice of retail supplier. The combined business starts operations with around 400,000 business customers encompassing our Scottish businesses and short cycle value added services, such as water efficiency advice.

Headquartered in Stoke, ‘Water Plus’, will be fully up and running before the market opening in April 2017.

1.4) Wholesale revenue

Table 2I sets out the total wholesale revenue for 2015/16 and the difference to the amount assumed in the wholesale determination.

As can be seen from Table 2I Wholesale revenue in 2015/16 was £1,544.4m, this was made up from £1,530.1m of wholesale revenue governed by the price control and £14.4m of grants and contributions. The revenue recovered was £6.6m higher than the £1,537.8m assumed in the PR14 final determination.

Revenue increases were the result of; customer consumption being higher than forecast, a reduction in the number of Free Meter Option conversions and as a result of increased volumes within household connections and infrastructure.

Revenue reductions were due to lower numbers of commercial connections, an increase in domestic allowances as a result of increased debt activity, and an increased credit note provision due to an increase in historical allowances.

Table 4G adds the non price control revenue of £10.6m (Table 2A) to the price control revenue and then sets out the wholesale current cost operating profit and profit before tax.

1.5) Additional regulatory information

Financial metrics (Table 4H)

Borrowings represent the notional value in the company statutory accounts and does not take account of the impact on interest of derivative instruments. The proportion of borrowings between fixed, floating and index-linked does not take into account any hedging arrangements and is not reflective of the overall portfolio.

Financial derivatives (Table 4I)

The table shows a total derivative mark-to-market value of £431.5m.

Included in the £363.1m derivative balance reported within the Regulatory Accounts, but excluded from the table, are forward starting swaps with value £(49.9m) and electricity swaps of value £(18.5m).

Due to the nature of the company's interest rate hedging policy, the company has significant amounts of both 'floating to fixed' and 'fixed to floating' interest rate swaps.

The nominal values have been netted in line with requirements, with those paying a fixed rate of interest shown as a positive figure.

The inclusion of both 'fixed to floating' and 'floating to fixed' interest rate swaps within one line in the table makes the calculation of meaningful weighted average interest rate problematic. We would recommend that the weighted average interest rate is better represented by splitting the two swap portfolios as follows:

The interest rates disclosed reflect the following gross positions:

- 'floating to fixed' rate: pay 2.67%, receive 0.74% (Notional of £2,656.3m)
- 'fixed to floating' rate: pay 1.13%, receive 4.86% (Notional of £1,025.0m)

For certain interest rate swaps we have swapped the fixed coupon on the debt (including credit spread) to a floating interest rate plus margin, whereas for other interest rate swaps we have swapped a fixed rate representing underlying interest (i.e. debt coupon less the credit spread) to a floating interest rate without any margin. Therefore certain rates payable/receivable included in the table are market interest rates excluding any element of credit spread, whereas other rates are 'all in' effective interest rates including credit spread. This means that caution must be exercised when attempting to interpret the rates in the table.

For certain cross currency swaps that have historically reached mandatory breaks, these have been re-hedged mid-life at on-market rates (at that point). In these scenarios the fair value of the swap would have been paid to / received from the counterparty (affecting the volume of debt), with the rate on the re-hedged swap being amended either up or down accordingly (sometimes significantly so). Therefore the rates payable on these swaps may not reflect the underlying cost of debt (for instance we have some swaps where we receive the debt coupon but pay LIBOR minus a margin and others where we pay LIBOR plus a margin significantly higher than the underlying credit spread), again caution must be exercised when attempting to interpret the rates in the table.

The interest rates incorporate fixed interest rates which are reflective of the position at the balance sheet date, and floating interest rates based on the last rate reset. As such, these are not representative of our future cost of debt.

Forward starting interest rate swaps have been excluded from the analysis.

The nominal value of the currency swaps reflect the sterling receivable amount.

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2. Regulatory Accounts

2.1) Introduction

The Regulatory Accounts have been prepared in accordance with the requirements of Regulatory Accounting Guidelines 1.06, 2.05, 3.08, 4.05 and 5.06 issued by the Water Services Regulation Authority (or Ofwat). These are separate from the statutory financial statements that have been prepared under the basis of International Financial Reporting Standards as adopted for use in the European Union.

The directors, in accordance with Regulatory Accounting Guideline 3.08 have prepared a historical cost income statement and historical cost statement of financial position, both of which separately show the figures for the appointed business and the non-appointed business. A historic cost cash flow statement has also been prepared as per the Ofwat guidelines.

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; and
- Keep proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the United Utilities Water Limited statutory financial statements. The directors have issued a certificate under Condition F6A of the Licence stating that the company will have available to it sufficient financial and management resources and facilities to enable it to carry out, for at least 12 months, its regulated activities. This certificate also confirms that all contracts entered into with any associated company included all necessary provision and requirements concerning the standard of service to be supplied by the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

The contract of appointment with the auditor satisfies the requirements of paragraph 9.2 of Condition F of the Licence, namely that 'the auditor will provide such further explanation or clarification of its reports, and such further information in respect of the matters which are the subject of its reports, as the Director General may reasonably require.

In the opinion of the directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
2. he or 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 auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the board and signed on its behalf by:

Russ Houlden
Chief Financial Officer
10 June 2016

2.2) Independent auditors' report to the Water Services Regulation Authority (the "WSRA") and Directors of United Utilities Water Limited

Opinion on the Regulatory Accounts

In our opinion, the Regulatory Accounts:

- Fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 87 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- Have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Financial information other than that prepared on the basis of UK GAAP or 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 Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP") or International Financial Reporting Standards as adopted by the European Union ("IFRSs").

In forming our opinion on the Regulatory Accounting Statements, which is not modified, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the accounting separation methodology) set out in the statement of Accounting Policies section and under the historical cost convention.

The Regulatory Accounting Statements on pages 73 to 91 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP or 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 on pages 73 to 76.

What we have audited

The sections within United Utilities Water Limited's Regulatory Accounts that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) on pages 73 to 77; 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) and the revenue analysis by customer type (table 2I) on pages 78 to 86.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the notes to the Regulatory Accounts.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance table (table 3A) and the additional regulatory information in tables 4A to 4I.

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.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 67, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Regulatory Accounts involves' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

What an audit of the Regulatory Accounts involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited sections within the Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under ISAs (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy note for price control segments set out in the Accounting Policies section and its Accounting Separation Methodology Statement to be published on the Company's website in July 2016. 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 & Ireland).

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 Regulatory Accounts.

Other matters

The nature, form and content of the Regulatory Accounts is 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. Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we report, 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.

John Luke

For and on behalf of KPMG LLP

Chartered Accountants

One St Peter's Square

Manchester

M2 3AE

10 June 2016

Notes:

1. The maintenance and integrity of the Company’s web site is the responsibility of the directors and the maintenance and integrity of the Regulator’s web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and The Regulatory Accounts may differ from legislation in other jurisdictions

2.3) Pro forma tables subject to audit opinion

Pro forma tables Section 1 Regulatory financial reporting

Pro forma 1A Income statement

1A - Income statement

For the 12 months ended 31 March 2016

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Revenue	£m	1691.675	23.873	9.090	14.783	1706.458
2	Operating costs	£m	-1116.407	-19.370	-4.410	-14.960	-1131.367
3	Other operating income	£m	0.000	-5.150	0.022	-5.172	-5.172
4	**Operating profit**	**£m**	**575.268**	**-0.647**	**4.702**	**-5.348**	**569.919**
5	Other income	£m	0.000	2.959	2.010	0.949	0.949
6	Interest income	£m	4.414	0.000	0.000	0.000	4.414
7	Interest expense	£m	-189.923	-21.260	0.000	-21.260	-211.184
8	Other interest expense	£m	0.000	0.000	0.000	0.000	0.000
9	**Profit before tax and fair value movements**	**£m**	**389.758**	**-18.948**	**6.712**	**-25.660**	**364.098**
10	Fair value gains/(losses) on financial instruments	£m	-41.000	0.000	0.000	0.000	-41.000
11	**Profit before tax**	**£m**	**348.758**	**-18.948**	**6.712**	**-25.660**	**323.098**
12	UK Corporation tax	£m	-49.382	0.000	-1.338	1.338	-48.044
13	Deferred tax	£m	88.100	2.161	0.000	2.161	90.261
14	**Profit for the year**	**£m**	**387.476**	**-16.787**	**5.374**	**-22.161**	**365.315**

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For line definitions see Excel version of the data tables

Pro forma 1B statement of comprehensive income

1B - Statement of comprehensive income

For the 12 months ended 31 March 2016

	Line description	Units	Statutory	Adjustments			Total appointed activities
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
1	Profit for the year	£m	387.476	-16.787	5.374	-22.161	365.315
2	Actuarial gains/(losses) on post employment plans	£m	124.600	0.000	0.000	0.000	124.600
3	Other comprehensive income	£m	-20.420	0.000	0.000	0.000	-20.420
4	**Total Comprehensive income for the year**	**£m**	**491.656**	**-16.787**	**5.374**	**-22.161**	**469.495**

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Annual Performance Report 2016

United Utilities helping life flow smoothly

Pro forma 1C Statement of financial position

1C - Statement of financial position

For the 12 months ended 31 March 2016

	Line description	Units	Statutory	Adjustments			Total appointed activities
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
A	**Non-current assets**						
1	Fixed assets	£m	9997.884	-79.873	3.059	-82.932	9914.951
2	Intangible assets	£m	162.396	-3.181	0.065	-3.246	159.150
3	Investments - loans to group companies	£m	0.000	0.000	0.000	0.000	0.000
4	Investments - other	£m	0.192	0.000	0.000	0.000	0.192
5	Financial instruments	£m	624.130	0.000	0.000	0.000	624.130
6	Retirement benefit assets	£m	226.900	0.000	0.000	0.000	226.900
7	**Total non-current assets**	**£m**	**11011.502**	**-83.054**	**3.124**	**-86.178**	**10925.324**
B	**Current assets**						
8	Inventories	£m	9.866	0.000	0.000	0.000	9.866
9	Trade & other receivables	£m	424.536	17.176	7.173	10.003	434.539
10	Financial instruments	£m	0.000	0.000	0.000	0.000	0.000
11	Cash & cash equivalents	£m	204.256	0.000	0.000	0.000	204.256
12	**Total current assets**	**£m**	**638.658**	**17.176**	**7.173**	**10.003**	**648.661**
C	**Current liabilities**						
13	Trade & other payables	£m	-241.555	8.962	-3.608	12.569	-228.985
14	Capex creditor	£m	-84.598	0.000	0.000	0.000	-84.598
15	Borrowings	£m	-600.765	0.000	0.000	0.000	-600.765
16	Financial instruments	£m	-5.174	0.000	0.000	0.000	-5.174
17	Current tax liabilities	£m	-18.627	0.000	-1.338	1.338	-17.289
18	Provisions	£m	-14.923	-8.962	0.000	-8.962	-23.884
19	**Total current liabilities**	**£m**	**-965.641**	**0.000**	**-4.946**	**4.946**	**-960.696**
20	**Net current assets / (liabilities)**	**£m**	**-326.983**	**17.176**	**2.228**	**14.949**	**-312.035**
D	**Non-Current liabilities**						
21	Trade & other payables	£m	-529.223	517.413	0.000	517.413	-11.810
22	Borrowings	£m	-6589.468	0.000	0.000	0.000	-6589.468
23	Financial instruments	£m	-255.818	0.000	0.000	0.000	-255.818
24	Retirement benefit obligations	£m	0.000	0.000	0.000	0.000	0.000
25	Provisions	£m	0.000	0.000	0.000	0.000	0.000
26	Deferred income - G&C's	£m	0.000	-517.413	0.000	-517.413	-517.413
27	Preference share capital	£m	0.000	0.000	0.000	0.000	0.000
28	Deferred tax	£m	-1048.200	15.115	0.000	15.115	-1033.085
29	**Total non-current liabilities**	**£m**	**-8422.708**	**15.115**	**0.000**	**15.115**	**-8407.593**
30	**Net assets**	**£m**	**2261.810**	**-50.763**	**5.352**	**-56.115**	**2205.696**
E	**Equity**						
31	Called up share capital	£m	-100.000	0.000	0.000	0.000	-100.000
32	Retained earnings & other reserves	£m	-2161.810	50.763	-5.352	56.115	-2105.695
33	**Total Equity**	**£m**	**-2261.810**	**50.763**	**-5.352**	**56.115**	**-2205.695**

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Pro forma 1D statement of cash flows

1D - Statement of cash flows

For the 12 months ended 31 March 2016

	Line description	Units	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
A	Statement of cashflows						
1	Operating profit	£m	575.268	-0.647	4.702	-5.348	569.919
2	Other income	£m	0.000	2.959	2.010	0.949	0.949
3	Depreciation	£m	375.060	-2.807	0.133	-2.940	372.120
4	Amortisation - G&C's	£m	-6.861	0.000	0.000	0.000	-6.861
5	Changes in working capital	£m	-33.653	0.494	-0.727	1.221	-32.432
6	Pension contributions	£m	-24.752	-23.348	0.000	-23.348	-48.100
7	Movement in provisions	£m	2.746	23.348	0.000	23.348	26.095
8	Profit on sale of fixed assets	£m	5.395	0.000	0.000	0.000	5.395
9	**Cash generated from operations**	**£m**	**893.203**	**0.000**	**6.118**	**-6.118**	**887.086**
10	Net interest paid	£m	-172.291	0.000	0.000	0.000	-172.291
11	Tax paid	£m	-26.403	0.000	-0.360	0.360	-26.043
12	**Net cash generated from operating activities**	**£m**	**694.510**	**0.000**	**5.757**	**-5.757**	**688.752**
C	Investing activities						
13	Capital expenditure	£m	-669.349	0.000	0.000	0.000	-669.349
14	Grants & Contributions	£m	17.257	0.000	0.000	0.000	17.257
15	Disposal of fixed assets	£m	1.422	0.000	0.000	0.000	1.422
16	Other	£m	0.000	0.000	0.000	0.000	0.000
17	**Net cash used in investing activities**	**£m**	**-650.670**	**0.000**	**0.000**	**0.000**	**-650.670**
18	**Net cash generated before financing activities**	**£m**	**43.840**	**0.000**	**5.757**	**-5.757**	**38.082**
D	Cashflows from financing activities						
19	Equity dividends paid	£m	-186.100	0.000	-5.733	5.733	-180.367
20	Net loans received	£m	159.253	0.000	0.000	0.000	159.253
21	Cash inflow from equity financing	£m	0.000	0.000	0.000	0.000	0.000
22	**Net cash generated from financing activities**	**£m**	**-26.847**	**0.000**	**-5.733**	**5.733**	**-21.114**
23	**Increase (decrease) in net cash**	**£m**	**16.993**	**0.000**	**0.025**	**-0.025**	**16.968**

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Annual Performance Report 2016

Pro forma 1E Net debt analysis at 31 March

1E - Net debt analysis at 31 March

For the 12 months ended 31 March 2016

	Line description	Units	Interest rate risk profile			
			Fixed rate	Floating rate	Index linked	Total
1	Borrowings (excluding preference shares)	£m	1773.846	1277.284	3448.796	**6499.926**
2	Preference share capital	£m				130.000
3	Total borrowings	£m				**6629.926**
4	Cash	£m				-2.456
5	Short term deposits	£m				-241.800
6	Net Debt	£m				**6385.670**
7	Gearing	%				62.55
8	Adjusted gearing	%				61.47
9	Full year equivalent nominal interest cost	£m	102.830	6.443	105.423	**214.696**
10	Full year equivalent cash interest payment	£m	102.830	6.443	50.973	**160.246**
	Indicative interest rates					
11	Indicative weighted average nominal interest rate	%	3.65	1.92	3.06	3.25
12	Indicative weighted average cash interest rate	%	3.65	1.92	1.48	2.43

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Pro forma 2A Segmental income statement

2A - Segmental income statement							United Utilities
For the 12 months ended 31 March 2016							
	Line description	Units	Retail		Wholesale		Total
			Household	Non-Household	Water	Wastewater	
1	Revenue - price control	£m	129.756	35.894	701.050	829.031	1695.731
2	Revenue - non price control	£m	0.000	0.104	5.985	4.637	10.727
3	Operating costs	£m	-120.305	-35.873	-457.115	-518.074	-1131.367
4	Other operating income	£m	0.002	0.000	-2.087	-3.087	-5.172
5	**Operating profit before recharges**	**£m**	**9.453**	**0.125**	**247.834**	**312.508**	**569.920**
6	Recharges from other segments	£m	-4.934	-1.889	-15.256	-5.540	-27.618
7	Recharges to other segments	£m	0.769	0.000	8.042	18.808	27.618
8	**Operating profit**	**£m**	**5.288**	**-1.764**	**240.620**	**325.776**	**569.920**
9	Surface water drainage rebates	£m					1.152

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Annual Performance Report 2016

Pro forma 2B totex analysis - wholesale

2B - Totex analysis - wholesale

For the 12 months ended 31 March 2016

	Line description	Units	Water	Wastewater	Total
A	Operating expenditure				
1	Power	£m	27.295	42.198	69.493
2	Income treated as negative expenditure	£m	-0.222	-5.174	-5.396
3	Service charges/ discharge consents	£m	7.726	6.979	14.705
4	Bulk supply/ Bulk discharge	£m	0.000	0.000	0.000
5	Other operating expenditure	£m	237.534	208.723	446.257
6	Local authority rates	£m	61.785	23.993	85.778
7	**Total operating expenditure excluding third party services**	**£m**	**334.119**	**276.719**	**610.837**
8	Third party services	£m	2.422	0.000	2.422
9	**Total operating expenditure**	**£m**	**336.541**	**276.719**	**613.260**
B	Capital Expenditure				
10	Maintaining the long term capability of the assets - infra	£m	0.000	0.000	0.000
11	Maintaining the long term capability of the assets - non- infra	£m	109.100	230.354	339.454
12	Other capital expenditure - infra	£m	62.505	81.181	143.685
13	Other capital expenditure - non-infra	£m	26.173	118.939	145.113
14	**Total gross capital expenditure excluding third party services**	**£m**	**197.778**	**430.474**	**628.252**
15	Third party services	£m	0.000	0.000	0.000
16	**Total gross capital expenditure**	**£m**	**197.778**	**430.474**	**628.252**
17	Grants and contributions (price control)	£m	9.172	5.187	14.358
18	**Totex**	**£m**	**525.147**	**702.006**	**1227.153**
C	Cash Expenditure				
19	Pension deficit recovery payments	£m	11.975	11.201	23.175
20	Other cash items	£m	0.000	0.000	0.000
D	Total				
21	**Totex including cash items**	**£m**	**537.122**	**713.207**	**1250.329**

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For line definitions see Excel version of the data tables

Annual Performance Report 2016

Pro forma 2C Operating cost analysis - retail

2C - Operating cost analysis - retail

For the 12 months ended 31 March 2016

	Line description	Units	Household	Non-household	Total
	Operating expenditure				
1	Customer services	£m	28.750	10.499	39.249
2	Debt management	£m	11.127	2.692	13.819
3	Doubtful debts	£m	60.021	7.944	67.964
4	Meter reading	£m	4.726	2.023	6.748
5	Services to developers	£m	0.000	0.588	0.588
6	Other operating expenditure	£m	9.438	8.180	17.618
7	**Total operating expenditure excluding third party services**	**£m**	**114.061**	**31.926**	**145.987**
8	Third party services operating expenditure	£m	0.000	0.000	0.000
9	**Total operating expenditure**	**£m**	**114.061**	**31.926**	**145.987**
10	Depreciation	£m	6.244	3.947	10.191
11	**Total operating costs**	**£m**	**120.305**	**35.873**	**156.178**
12	Debt written off	£m	67.105	4.558	71.663

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For line definitions see Excel version of the data tables

Pro forma 2D Historic cost analysis of fixed assets

2D - Historic cost analysis of fixed assets - wholesale & retail

For the 12 months ended 31 March 2016

	Line description	Units	Wholesale		Retail		Total
			Water	Wastewater	Household	Non-Household	
A	Cost						
1	At 1 April 2015	£m	4821.808	8078.537	96.675	19.081	13016.101
2	Disposals	£m	-10.496	-41.300	0.000	-20.594	-72.390
3	Additions	£m	202.022	459.065	12.834	4.640	678.561
4	**At 31 March 2016**	**£m**	**5013.334**	**8496.302**	**109.509**	**3.127**	**13622.272**
B	Depreciation						
5	At 1 April 2015	£m	-1229.533	-1924.347	-69.240	-0.175	-3223.295
6	Disposals	£m	7.065	37.913	0.000	2.266	47.244
7	Charge for the year	£m	-120.574	-241.355	-6.244	-3.947	-372.120
8	**At 31 March 2016**	**£m**	**-1343.042**	**-2127.789**	**-75.484**	**-1.856**	**-3548.171**
9	**Net book amount at 31 March 2016**	**£m**	**3670.292**	**6368.513**	**34.025**	**1.271**	**10074.101**
10	**Net book amount at 1 April 2015**	**£m**	**3592.275**	**6154.190**	**27.435**	**18.906**	**9792.806**

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Pro forma 2E Analysis of capital contributions and land sales - wholesale

2E - Analysis of capital contributions and land sales - wholesale

For the 12 months ended 31 March 2016

	Line description	Units	DPs	Current year			
				Fully recognised in income statement	Capitalised and amortised against depreciation	Fully netted off capex	Total
A	Grants and contributions - water						
1	Connection charges (s45)	£m	3	0.000	3.659	0.000	3.659
2	Infrastructure charge receipts (s146)	£m	3	0.000	5.513	0.000	5.513
3	Requisitioned mains (s43, s55 & s56)	£m	3	0.000	0.000	0.000	0.000
4	Diversions (s185)	£m	3	6.248	0.000	0.000	6.248
5	Other Contributions	£m	3	0.000	4.558	0.000	4.558
6	**Total**	**£m**	**3**	**6.248**	**13.730**	**0.000**	**19.978**
B	Grants and contributions - wastewater						
7	Infrastructure charge receipts (s146)	£m	3	0.000	5.187	0.000	5.187
8	Requisitioned sewers (s100)	£m	3	0.000	0.000	0.000	0.000
9	Diversions (s185)	£m	3	8.727	0.000	0.000	8.727
10	Other Contributions	£m	3	0.000	31.174	0.000	31.174
11	**Total**	**£m**	**3**	**8.727**	**36.361**	**0.000**	**45.087**

	Line description	Units	DPs	Current year		
				Water	Wastewater	Total
C	Balance sheet					
12	Brought forward	£m	3	131.802	354.137	485.939
13	Capitalised in year	£m	3	13.730	36.361	50.091
14	Amortisation (in income statement)	£m	3	-4.465	-4.994	-9.459
15	**Carried forward**	**£m**	**3**	**141.067**	**385.504**	**526.571**
D	Land sales					
16	Proceeds from disposals of protected land	£m	3	2.131	0.050	2.180

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Pro forma 2F Household – revenues by customer type

2F - Household - revenues by customer type

For the 12 months ended 31 March 2016

	Line description	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average household retail revenue per customer £
1	Unmeasured water only customer	10.252	1.180	11.432	45.009	26.217
2	Unmeasured wastewater only customer	4.556	0.535	5.091	25.120	21.298
3	Unmeasured water and wastewater customer	656.498	76.190	732.688	1714.540	44.438
4	Measured water only customer	4.016	0.596	4.612	25.068	23.775
5	Measured wastewater only customer	2.716	0.400	3.116	16.729	23.911
6	Measured water and wastewater customer	366.332	50.855	417.187	1098.587	46.291
7	**Total**	**1044.370**	**129.756**	**1174.126**	**2925.053**	**44.360**

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For line definitions see Excel version of the data tables

Annual Performance Report 2016

Pro forma 2G Non Household water – revenues by customer type

2G - Non-household water - revenues by customer type

For the 12 months ended 31 March 2016

	Line description	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (nr)	Average non-household retail revenue per customer £
A	**Non-Default tariffs**					
1	Total non-default tariffs	0.334	0.104	0.438	1721.0	60.46
B	**Default tariffs**					
2	1 Up to 50 Ml Water Unmetered	2.422	0.522	2.943	12994.0	40.14
3	2 Up to 50Ml Water Metered	132.987	10.778	143.765	153314.0	70.30
4	3 > 50Ml water metered	49.692	2.208	51.900	188.0	11742.87
5	4 Up to 50Ml Non-potable Water Metered	0.009	0.002	0.011	45.0	42.86
6	5 > 50Ml Non-potable Water Metered	2.223	0.168	2.391	11.0	15304.41
7	15 Water Special Agreements	1.944	0.062	2.006	6.0	10377.07
8				0.000		0.00
20	**Total default tariffs**	**189.276**	**13.740**	**203.016**	**166558**	**82.49**
21	**Total**	**189.610**	**13.844**	**203.454**	**168279**	**142.95**

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Annual Performance Report 2016

Pro forma 2H Non Household wastewater – revenues by customer type

2H - Non-household wastewater - revenues by customer type — United Utilities

For the 12 months ended 31 March 2016

	Line description	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (nr)	Average non-household retail revenue per customer £
A	Non-Default tariffs					
1	Total non-default tariffs	0.000	0.000	0.000	0.0	0.00
B	Default tariffs					
2	6 Up to 50 Ml Sewerage Unmetered	3.663	0.498	4.162	14805.0	33.67
3	7 Up to 50Ml Sewerage Foul Metered	62.771	3.081	65.852	163927.0	18.80
4	8 > 50Ml Sewerage Foul Metered	5.932	0.773	6.705	445.0	1736.76
5	9 SWHD Metered Bands 1 - 7	119.774	13.209	132.983	137761.0	95.89
6	10 SWHD Metered Bands 8 - 15	62.588	2.134	64.723	2201.0	969.70
7	11 Up to 50Ml Sewerage TE Metered	12.942	0.794	13.736	2774.0	286.25
8	12 > 50Ml Sewerage TE Metered	26.424	1.621	28.045	134.0	12098.41
9	13 Foul / SWD Special Agreements	0.553	0.022	0.574	4.0	5444.86
10	14 Trade Effluent Speciial Agreements	0.583	0.021	0.603	3.0	6983.29
21				0.000		0.00
22	**Total default tariffs**	**295.230**	**22.154**	**317.385**	**322054**	**68.79**
23	**Total**	**295.230**	**22.154**	**317.385**	**322054**	**68.79**

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Annual Performance Report 2016

Pro forma 2I Revenue analysis & wholesale control reconciliation

2I - Revenue analysis & wholesale control reconciliation

For the 12 months ended 31 March 2016

	Line description	Units	DPs	Household	Non-household	Total
A	**Wholesale charge - water**					
1	Unmeasured	£m	3	328.404	2.422	330.826
2	Measured	£m	3	182.165	185.828	367.993
3	Third party revenue	£m	3	0.000	2.232	2.232
4	**Total**	**£m**	**3**	**510.569**	**190.481**	**701.050**
B	**Wholesale charge - wastewater**					
5	Unmeasured	£m	3	342.902	3.663	346.565
6	Measured	£m	3	190.899	291.567	482.466
7	Third party revenue	£m	3	0.000	0.000	0.000
8	**Total**	**£m**	**3**	**533.801**	**295.230**	**829.031**
9	**Wholesale Total**	**£m**	**3**	**1044.370**	**485.712**	**1530.082**
C	**Retail revenue**					
10	Unmeasured	£m	3	77.905	1.020	78.925
11	Measured	£m	3	51.851	34.874	86.725
12	Retail third party revenue	£m	3	0.000	0.000	0.000
13	**Retail total**	**£m**	**3**	**129.756**	**35.894**	**165.650**
D	**Third party revenue - non-price control**					
14	Bulk Supplies	£m	3			0.780
15	Other third party revenue	£m	3			6.942
16	Other appointed revenue	£m	3			3.004
17	**Total appointed revenue**	**£m**	**3**			**1706.458**
				Water	**Wastewater**	**Total**
18	Wholesale revenue governed by price control	£m	3	701.050	829.031	1530.082
19	Grants & contributions	£m	3	9.172	5.187	14.358
20	**Total revenue governed by wholesale price con**	**£m**	**3**	**710.222**	**834.218**	**1544.440**
21	Amount assumed in wholesale determination	£m	3	703.449	834.363	1537.813
22	**Difference**	**£m**	**3**	**6.773**	**-0.145**	**6.627**

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For line definitions see Excel version of the data tables

2.4) Accounting policies

The Regulatory Accounts have been prepared in accordance with IFRS, except for the areas of revenue recognition and capitalisation of interest as required by Ofwat. Details of all significant accounting policies applied under IFRS are detailed in the United Utilities Water (UUW) Limited statutory accounts. In addition, the RAGs require certain presentational differences within the income statement between the statutory and the regulatory accounts.

Individual lines within the regulatory tables are rounded to 2 or 3 decimal places, as specified by Ofwat, therefore there may be instances where the total line within a table is not equal to the sum of the values presented.

Capitalisation policy

The group recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them.

For non-infrastructure assets, expenditure that is directly attributable to the acquisition of the items of PPE is capitalised. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The only exception to IFRS, as required by RAG 1.06 'Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime', is that the company does not capitalise interest in the Regulatory Accounts. The company applies a minimum capital limit per project of £500, any expenditure below this limit should be expensed.

Accounting policy note for price control segments

The accounts have been drawn up in accordance with RAG 2 with no significant changes in the year. As noted in our Accounting Policies note to the UUW Limited statutory accounts, management capitalises time and resources incurred by the group's support functions on capital programmes. In accordance with RAG1.06 our historic cost accounting statements will be in line with IFRS, except for deviations as specifically required by Ofwat. As such, any attribution or allocation of support costs between price controls is performed on the net cost balance after capitalisation. This approach is consistent with prior years and with our price review submission.

Allocation of costs to principal services

Direct costs are charged to the sub-service areas to which they are attributable, as defined in Ofwat's Regulatory Accounting Guideline 4.05. Business activities and indirect costs are allocated on an activity basis using quantitative measures such as full time equivalent employee numbers and other methods reflecting consumption of service.

Appointed and non-appointed activities

The company has used the guidance in Ofwat's Regulatory Accounting Guideline 3.08 in determining which of its activities are appointed or non-appointed. In summary, the appointed business is defined as the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The non-appointed business encompasses those activities for which the company is not a monopoly supplier or those activities which involve the optional use of an asset owned by the appointed business.

Revenue recognition policy

Revenue represents the income receivable in the ordinary course of business from the regulated activities of the 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.

Where an invoice has been raised or payment made but the service has not been provided in the year this will not be recognised within the current year’s revenue but will instead be recognised within creditors.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within revenue.

Charging policy

Water and sewerage charges fall into the following three categories:

- Charges which are payable in full;
- Charges which are payable in part; and
- Not chargeable (void properties).

The circumstances in which each of the above applies are set out below.

Occupied and furnished
Water (and sewerage) charges are payable in full when premises are occupied and furnished from either the date of connection or the date of occupation.

Unoccupied and furnished
Water (and sewerage) charges are payable in full on unoccupied furnished premises. Exceptions to this, where water (and sewerage) charges are not payable, include where the occupier is:

- A sole occupier in a care home;
- A sole occupier in long-term hospitalisation;
- A sole occupier in prison;
- Overseas long term; or
- In the event of the death of a sole occupier.

Unoccupied and unfurnished where there is evidence of consumption
Water (and sewerage) charges are payable in full on unoccupied, unfurnished premises where there is evidence of consumption. This includes:

- Premises where renovation, redecoration or building work is being undertaken;
- Premises being used as storage; and
- Premises not normally regarded as being occupied such as cattle troughs and car parks.

Charges payable in part

The following charges only are payable in certain circumstances:

Metered standing charges

Payable on unoccupied, metered properties which, remain connected.

Sewerage unmeasured tariff

Payable on unmeasured, occupied properties where the water supply is disconnected but the sewerage service is still provided.

Surface water drainage and highway drainage charges

Payable where premises are not occupied but are furnished or there is evidence of consumption or the water supply has been temporarily disconnected.

Not chargeable

Properties which are unoccupied, unfurnished and disconnected are not chargeable for water (and sewerage) and therefore no billing is raised and no revenue recognised in respect of these properties.

Definition and treatment of properties

Occupied properties

The occupier is any person in actual occupation or who own premises or who has agreed with us to pay water and sewerage services in respect of the premises. No bills are raised in the name of "the occupier".

The property management process is followed to identify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all of the following:

- Physical inspection;
- Mailings;
- Customer contacts;
- Meter readings for metered properties;
- Land registry checks.

When a new customer is identified, they may be required to provide documentary evidence to establish the date that they became responsible for water (and sewerage) charges at the property. This is normally the date at which they moved into the property. The new customer will be charged from the date at which they became responsible for water (and sewerage) charges of the premises.

Unoccupied properties

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and unfurnished;
- The company has been informed that the customer has left the property; it is unfurnished and not expected to be reoccupied immediately;

- It has been disconnected following a customer request;
- The identity of the customer is unknown; or
- The company has been informed that the customer is in a care home, in long-term hospitalisation, in prison or overseas long term.

If the property management process confirms that the property is unoccupied, the property will be declared void and the supply may be turned off.

New properties

All new properties are metered. Until the new occupier has been identified, the property is treated as unoccupied and is not billed.

Measured income accrual

The household measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based on weighted average water consumption by tariff, which is calculated based on historical information. The measured income accrual is recognised within turnover.

An estimation of the Non-household mains water and wastewater charges unbilled at the year-end is calculated and a measured income accrual recognised within turnover. The accrual is estimated using a defined methodology based on historical water consumption of individual customers or based on meter size where individual consumption is not available for use.

There has been no change to the methodology in calculating the measured income accrual since the prior year. A retrospective review of the previous year's measured income accrual and the amount actually billed in the year showed that the amount actually billed was less, for reasons, which included customers changing site area charging band.

Bad debt policy

Bad debt is written off when all economically viable efforts to recover outstanding amounts have been fully exhausted or alternatively, when the write-off of such amounts forms part of customer rehabilitation processes (subject to acceptance criteria and customer "matching" payments). The company's bad debt write-off policy has remained unchanged and has been consistently applied in the current year compared with the previous year. However, the level of write-off has reduced from £83.5m in 2015 to £71.7m in 2016. The main reason for this is that 2014/15 included an increased charge following a detailed review of the company's trade debtors ledger.

Household

The household bad debt provision is charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. Household has retained the simple provisioning model introduced in 2014/2015 to calculate the bad debt provision. The provision model applies expected recovery rates to debts outstanding at the end of the accounting period. The overall expected recovery rate takes into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt of greater age. Bad debt provisioning rates will be reviewed annually to ensure they continue to reflect the latest collection performance data from the company's billing system. All debt greater than 3 years old is fully provided for.

The actual level of debt collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

The household bad debt provision policy has remained unchanged and has been consistently applied in the current and prior years. There has been no significant movement in the bad debt provision from the prior year.

There has been no significant movement in the household trade debtor balance from the prior year.

Non-household

The Non-household bad debt provisioning model evaluates the recoverability of trade debtors based on past experience. The model takes the trade debtor value at year end and calculates (based on actual collection history and customer category e.g. key or non-key, measured or unmeasured) the expected value of future cash receipts or credit notes that will be raised against this debt. The remaining value of trade debt is deemed to be irrecoverable and as such a provision is recognised for this value.

The actual level of debt collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

The Non-household bad debt provision policy has remained unchanged and has been consistently applied in the current and prior years. The bad debt provision has increased from £14.8m at the end of 2014/15 to £18.6m at the end of 2015/16, due to the trade debtor balance increasing from £59.8m at the end of 2014/15 to £80.2m at the end of 2015/16, primarily as a result of some late issuing of customer bills towards the end of the year, with insufficient time to receive payment before the end of March.

Dividend policy

The current dividend policy of UUW is to provide a return of 5% on the equity portion of the Regulatory Capital Value. The board believe this represents an appropriate return taking into consideration:

- The challenges of the 2015/2020 final determination;
- The importance of income to shareholders; and
- The need to retain a robust and sustainable capital structure.

The board reviews the ongoing appropriateness of its dividend policy annually.

2.5) Additional unaudited regulatory information

Difference between statutory and RAG definitions

Revenue recognition

The following differences exist between the revenue recognition policies in the statutory accounts and in the Regulatory Accounts:

- IAS18 has been applied to the statutory accounts and requires revenue to be recognised only when it is probable that economic benefits associated with the transactions will flow to the company. The Regulatory Accounts, however, require revenue to be recognised in full unless properties have been confirmed as being void; and
- Income from energy generation, exported energy, renewable obligation certificates (ROC) and ROC bonuses is treated as revenue in the statutory accounts but as negative operating expenditure in the Regulatory Accounts.

Capitalisation of borrowing costs

For statutory reporting interest costs under IAS23 are capitalised and subsequently depreciated, whereas interest is charged immediately as an expense in the Regulatory Accounts.

The differences in Revenue, Operating profit and Profit before tax and fair value movements can be summarised as follows:

		£m
Revenue	Revenue recognition	29.270
	Reclass of ROC income to opex	(5.397)
	Total differences	**23.873**
Operating profit	Revenue recognition	(0.151)
	Capitalisation of borrowing costs	2.807
	Reclassification of other income	(2.959)
	Other	(0.343)
	Total differences	**(0.647)**
Profit before tax	Revenue recognition	(0.151)
	Capitalisation of borrowing costs	(18.454)
	Other	(0.343)
	Total difference	**(18.984)**

The differences in Total non-current assets and Total current assets within table 1C can be summarised as follows:

		£m
Total non-current assets	Capitalisation of borrowing costs	83.054
	Other	-
	Total differences	**83.054**
Total current assets	Revenue recognition	17.520
	Other	(0.344)
	Total differences	**17.176**

Current tax reconciliation

	£m
Profit on ordinary activities before tax per Table 1A	323.1
Multiplied at the standard rate of corporation tax of 20%	64.6
Capital allowances in excess of depreciation	(18.0)
Other timing differences	3.3
Adjustment in respect of prior years	(5.7)
Net non-deductible expenses	3.8
Appointed business current tax change	**48.0**

We are not aware of any factors affecting future tax charges in AMP 6, other than the proposed reduction in the corporation tax rate from 20% to 19%, effective from 1 April 2017.

Reconciliation of significant variations between the appointed current tax charge or credit reported in line 1A.12 to the total current tax charge allowed in price limits:

	£m
Current tax charge allowed in price limits	42.5
Adjustment in respect of prior years	(5.7)
New increase in pension deductions	(3.5)
Net increase in profit before tax and depreciation	14.9
Net increase in financing adjustments	15.0
New increase in capital allowances/other	(15.2)
Appointed current tax change per line 1A 12	**48.0**

Information in respect of transactions with any other business or activity of the appointee or associated company

To the best of their knowledge, the directors of the company declare that all appropriate transactions with associated companies have been disclosed and material transactions with associated companies are at arm's length and no cross subsidy has occurred. The materiality level of transactions used for reporting is 0.5 per cent of turnover.

Borrowings and sums lent

The following loans from associated companies existed at 31 March 2016:

	£m	Interest rate	Repayment date
United Utilities PLC: $400.0 million bond	338.0	6.88%	August 2028
United Utilities PLC: £205.5 million bond	205.5	0.175% + LIBOR	February 2019
United Utilities PLC: £130.0 million bond	130.0	0.175% + LIBOR	June 2018
United Utilities PLC: £300.0 million bond	250.0	0.175% + LIBOR	Amortising until August 2020
United Utilities PLC: overdraft facility	25.9	0.5% + LIBOR	On demand
United Utilities Water Finance PLC: EUR Notes 1.129% 2027	41.0	1.129%	April 2027
United Utilities Water Finance PLC: EUR Notes 2.058% 2030	25.1	2.058%	October 2030
United Utilities Water Finance PLC: GBP 0.013% IL Bond 2025	25.2	0.013% + RPI	April 2025
United Utilities Water Finance PLC: GBP 0.178% IL Bond 2030	35.3	0.178% + RPI	April 2030
United Utilities North West Limited: preference shares	130.0	7.00%	October 2099

The following loans to associated companies existed at 31 March 2016:

	£m	Interest rate	Repayment date
United Utilities PLC: £40.0m loan	40.0	0.5% + LIBOR	On demand

Dividends paid to associated undertakings

During 2015/16, interim dividends were paid to the parent company, United Utilities North West Limited, totalling £186.1 million (2014/15: £180.6 million). Of this amount, £119.4 million was in respect of 2014/15 profits and £66.7 million in respect of 2015/16 profits. No final dividend has been recommended for 2015/16 (2014/15: £nil).

Guarantees by the appointee

A new financing subsidiary of United Utilities Water Limited (UUW), United Utilities Water Finance PLC (UUWF), was set up during the prior year to issue new listed debt on behalf of UUW going forwards, following UUW's re-registration as a private limited company. Debt instruments issued in the period by UUWF have been guaranteed by UUW.

Transfer of assets by or to the appointee

There were no transfers of assets or liabilities by or to the company in excess of the materiality limit in the current or prior year.

Services supplied to the company by associated companies

Nature of transaction	Company	Turnover of associate £m	Terms of supply	2016 Total value of goods, work or services £m
Functions	UU PLC	-	Employment costs	19.334
Accommodation	UU Property Services	15.070	Contract price	0.239
Purchase of Energy	UU Renewable Energy	0.793	Contract	0.405
				19.978

Services supplied by the company to associated companies

Nature of transaction	Company	Turnover of associate £m	Terms of supply	2016 Total value of goods, work or services £m
Employment costs and travel costs	UU Property Services	15.070	Recharge of costs	0.525
Employment costs and travel costs	UU Water Sales Ltd	16.285	Recharge of costs	1.413
Employment costs and travel costs	UU PLC	-	Recharge of costs	0.473
Employment costs and travel costs	UU International Ltd	0.777	Recharge of costs	0.644
Employment costs and travel costs	UU Total Solutions	5.421	Recharge of costs	0.916
Employment costs and travel costs	UU Renewable Energy	0.793	Recharge of costs	1.008
Employment costs and travel costs	UU Utilities Solutions (industrial Ltd)	-	Recharge of costs	0.050
Employment costs and travel costs	UU Water Operations Holdings Ltd	-	Recharge of costs	0.014
Wastewater treatment services	UUW PLC (non appointed)	1.978	Contract price	0.615
Accommodation	UU Property Services	15.070	Recharge of costs	0.271
Property searches	UUW PLC (non appointed)	3.861	Contract price	1.645
				7.574

The services provided by United Utilities PLC Functions' employees (including ICT, HR, Finance, Corporate Affairs and General Counsel) predominantly support UUW. These costs have been incurred directly by United Utilities Water PLC throughout 2015/16 but relate to employee of United Utilities PLC.

Costs relating to non-regulated activities have either been charged directly to the appropriate non-regulated cost centres or recharged to the non-regulated entities as appropriate.

Net debt analysis

All figures in Table 1E have been calculated by reference to 'RAG 4.05 - Guideline for the table definitions in the Annual Performance Report'.

Net debt excludes fair value accounting adjustments which do not impact on the principal sum outstanding on the debt. The interest rate risk profile does not take account of the impact on interest of derivative instruments.

Adjusted gearing has been calculated based on the methodology published by Moody's Investor Services, which incorporated the net debt position of United Utilities Group PLC. This measure is more commonly used both internally and externally for the purposes of financial covenants and in the determination of UUW's credit rating by the financial community.

Indicative weighted average interest rates are based on the effective interest rates as at the balance sheet date, which includes the impact of derivative instruments but exclude those with a forward start date, weighted by the notional principal amount.

Due to the nature of the company's interest rate hedging policy, it has some forward starting interest rate swaps which are not included in the indicative weighted average interest rates as they are not effective as at the balance sheet date. As a result the indicative weighted average interest rates are only representative of our economic cost of borrowing as at the balance sheet date and are not representative of our economic cost of borrowing over the duration of the fixed interest rate hedge.

Annual RPI increase of 1.6 per cent at March 2016 has been applied.

Statement of directors' remuneration and standards of performance

With the exception of Steve Fraser, all directors of UUW are also directors of United Utilities Group PLC and further details of their remuneration can be found in the Annual Report and Accounts of United Utilities Group PLC.

For the purposes of this disclosure, the company's directors can be split into two categories:

- Executive directors of UUW; and
- Non-executive directors of UUW.

During the year ended 31 March 2016, the directors have received remuneration linked to levels of performance against service standards in connection with activities subject to price regulation.

Element: purpose and link to strategy	Operation	Opportunity 2015/16	Performance measures
Base salary			
To attract and retain executives of the experience and quality required to deliver the company's strategy.	Reviewed annually. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce, with higher increases awarded only where there has been a material increase in: ▪ The size of the individual's role; ▪ The size of the company (through mergers and acquisitions); or ▪ The pay market for directly comparable companies (for example, companies of a similar size and complexity).	Steve Mogford: £713,000 from 1 September 2015 Russ Houlden: £450,000 from 1 September 2015 Steve Fraser: £313,700 from 1 July 2015	None

Element: purpose and link to strategy	Operation	Opportunity 2015/16	Performance measures
Benefits			
To provide market competitive benefits to help recruit and retain high calibre executive directors.	Provision of benefits such as health benefits, car allowance, life assurance, group income protection and opportunity to join the ShareBuy scheme.	See table on executive directors' remuneration 2015/16 below).	None
Annual bonus			
To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy. Deferral of part bonus into shares aligns the interests of executive directors and shareholders.	Steve Mogford and Russ Houlden: • 50% paid as cash. • 50% deferred into UUG shares under the Deferred Bonus Plan (DBP) for three years. Steve Fraser: • 60% paid as cash. • 40% deferred into company shares under the DBP for three years. All: • DBP shares accrue dividend equivalents. • Not pensionable. • Clawback and malus provisions apply.	Steve Mogford and Russ Houlden: Maximum 130% of salary Steve Fraser: Maximum 90% of salary	Payments predominantly based on financial and operational performance, with a minority based on achievement of personal objectives. Targets set by reference to the company's financial and operating plans. Detail is set out in table 2015/16 annual bonus below.

<table>
<tr><th>Element: purpose and link to strategy</th><th>Operation</th><th>Opportunity 2015/16</th><th>Performance measures</th></tr>
<tr><td colspan="4">Long Term Plan</td></tr>
<tr><td>To incentivise long term value creation and alignment with longer term returns to shareholders.</td><td>Awards under the Long Term Plan (LTP) are rights to receive company shares, subject to certain performance conditions.
Each award is measured over a three year performance period starting at the beginning of the financial year in which awards are granted.
An additional two-year holding period applies after the end of the three-year performance period for Steve Mogford and Russ Houlden.
Vested shares accrue dividend equivalents.
Malus provisions apply.</td><td>Steve Mogford and Russ Houlden: 130% of salary
Steve Fraser: 70% of salary</td><td>One-third based on Total Shareholder Return (TSR); one-third based on customer service excellence and one-third based on a sustainable dividends performance condition.
Any vesting is also subject to the committee being satisfied that the company’s performance on these measures is consistent with underlying business performance.</td></tr>
<tr><td colspan="4">Pension</td></tr>
<tr><td>To provide a broadly mid-market level of retirement benefits.</td><td>Executive directors are offered the choice of;
▪ A company contribution into a defined contribution pension scheme; or
▪ A cash allowance in lieu of pension; or
▪ A combination of a company contribution into a defined contribution pension scheme and a cash allowance.</td><td>All executive directors elected to receive a cash allowance of 22% of base salary.</td><td>None.</td></tr>
</table>

Non-executive directors

As outlined in the Annual Report and Accounts of United Utilities Group PLC, the non-executive Chairman and non-executive directors do not participate in the company's incentive arrangements (i.e. annual bonus or share schemes) and were paid no remuneration linked to water service standards.

How the standards of performance are assessed

Through the annual bonus and long-term incentive schemes, the executive directors receive remuneration linked to the achievement of performance measures, which relate to water service standards in order to provide an incentive for them to deliver improvements in those standards.

In determining the outcome of the incentive schemes, standards of performance are assessed by the United Utilities Group PLC Remuneration Committee (the Committee) to ascertain whether targets have been achieved. In addition, the Committee also considers relevant reports from Ofwat in assessing the achievement of standards of performance.

Executive directors' remuneration 2015/16

	Salary £'000	Taxable benefits £'000	Bonus (1) £'000	Long-term incentives (2) £'000	Cash allowance in lieu of pension £'000	Other (3)	Total £'000
Steve Mogford	707	26	501	1,440	156	0	2,830
Russ Houlden	446	23	313	688	98	0	1,568
Steve Fraser	312	16	172	283	69	0	852

Note:

(1) For Steve Mogford and Russ Houlden, 50 per cent of bonus was deferred into shares for three years under the Deferred Bonus Plan (DBP). For Steve Fraser 40 per cent of bonus was deferred under the DBP.

(2) See below for further detail on the long-term incentives

A recharge of £299,000 during the year ended 31 March 2016 (2015: £312,000) was charged to other companies in the United Utilities group in relation to the provision of executive director services (£256,000) and non-executive director services (£43,000).

2015/16 annual bonus

During 2014/15 the Committee reviewed the annual bonus measures to ensure that they were aligned to the delivery of the business strategy for regulatory period 2015-20. The 2015/16 bonus measures and outcome are shown in the table below:

Measure	Steve Mogford		Russ Houlden		Steve Fraser	
	Max. %	Actual %	Max. %	Actual %	Max. %	Actual %
Underlying operating profit	30.0	10.5	30.0	10.5	20.0	7.0
Customer service in year						
Service Incentive Mechanism – Qualitative	12.0	3.4	12.0	3.4	12.0	3.4
Service Incentive Mechanism – Quantitative	4.0	1.8	4.0	1.8	4.0	1.8
Maintaining and enhancing services for customers						
Wholesale outcome delivery incentive composite	20.0	11.6	20.0	11.6	20.0	11.6
Time, cost and quality of capital programme (TCQi)	20.0	14.2	20.0	14.2	20.0	14.2
Corporate responsibility						
Dow Jones Sustainability Index rating	4.0	4.0	4.0	4.0	4.0	4.0
Personal objectives	10.0	9.0	10.0	8.5	20.0	19.0
Total as % bonus maximum	**100.0**	**54.5**	**100.0**	**54.0**	**100.0**	**61.1**
Total as % base salary	**130.0**	**70.8**	**130.0**	**70.1**	**90.0**	**55.0**
Total £'000		**501**		**313**		**172**

For all of these bonus measures there was a threshold level of performance which, triggered a partial payment of bonus with a sliding scale providing for achievement of up to 100 per cent of the relevant element of bonus.

Long-term incentives

Details of UUG PLC shares previously granted to UUW Limited executive directors which vested in 2015/16, or whose performance period ended in 2015/16, are as follows:

Director	Number of shares vesting				Value of shares vesting £'000			
	2013 LTP[1]	MSIS[2]	DSAS[3]	Total	2013 LTP[4]	MSIS[5]	DSAS[6]	Total
Steve Mogford	44,737	109,264	n/a	154,001	412	1,028	n/a	1,440
Russ Houlden	28,233	46,238	n/a	74,471	261	427	n/a	688
Steve Fraser	9,519	n/a	22,121	31,640	88	n/a	195	283

1. The 2013 Long Term Plan (LTP) awards were granted in July 2013. The performance period started on 1 April 2013 and ended on 31 March 2016. The final outcome for the customer service excellence measure (which forms 33% of the award) will not be known until Ofwat publishes the combined service incentive mechanism (SIM) score for the company and its comparator water companies (expected to be published in late summer 2016). The number and value of the vested 2013 LTP awards in the table above is therefore estimated. Awards granted to Steve Fraser are expected to vest once the combined SIM scores are published. Awards granted to Steve Mogford and Russ Houlden will normally vest in April 2018, following an additional two year holding period. The awards accrue dividend equivalents.

The performance measures, and estimated achievement against those measures, are summarised below:

Performance measure	Weighting	Estimated achievement
Total Shareholder Return (TSR) over the performance period, relative to the median TSR of FTSE 100 companies (excluding financial services, oil and gas and mining companies)	33.3%	25.3% out of 33.3%
Sustainable dividends. Dividend growth in each year of the performance period, with an underlying dividend cover underpin	33.3%	8.3% out of 33.3%
Customer service excellence. Ranking for the year ended 31 March 2016 versus 18 other water companies using Ofwat's SIM combined score	33.3%	0% out of 33.3%
Total vesting		**33.6%**

2. When Steve Mogford and Russ Houlden joined the company in 2010/11, they received one-off Matched Share Investment Scheme (MSIS) awards as part of their terms of appointment. They acquired shares in the company at their own expense ("investment shares") which would be matched under the MSIS on a 1:1 basis ("matching shares") provided that they remained employees within the group until the fifth anniversaries of their dates of joining the company and did not sell their investment shares. The matching shares accrued dividend equivalents. The figures in the table above show the number and value of the matching shares, which vested during 2015/16. Steve Mogford's awards vested on 5 January 2016 and Russ Houlden's awards vested on 1 October 2015.

3. Steve Fraser was granted a retention award under the Deferred Share Award Scheme on 3 July 2012, which vested on 6 July 2015. The vesting of these awards was conditional on satisfactory performance and continued employment for the three-year vesting period. The awards accrued dividend equivalents.

4 The value of the 2013 LTP awards has been calculated by multiplying the number of shares vesting by the average share price over the three-month period 1 January 2016 to 31 March 2016 (923 pence per share)

5 The value of the MSIS awards has been calculated by multiplying the number of shares vesting by the closing share price on the date of vesting (941 pence per share for Steve Mogford and 925 pence per share for Russ Houlden).

6 The value of the DSAS awards has been calculated by multiplying the number of shares vesting by the closing share price on the date of vesting (883 pence per share).

Directors' remuneration 2016/17

With the exception of the annual salary and fee review, no other changes are expected to director's remuneration arrangements for the forthcoming year.

United Utilities Group PLC incentive arrangements will continue to reflect the importance of achieving service standards and performance will again be assessed against a number of key measures including ODIs and Service Incentive Mechanism (SIM) scores, which will be used by Ofwat to assess standards of company performance over the regulatory period 2015-20.

CERTIFICATE UNDER PARAGRAPH 6A.2A OF CONDITION F OF THE APPOINTMENTS TO WATER SERVICES REGULATORY AUTHORITY

(1) In the opinion of the directors, United Utilities Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointments);

(2) In the opinion of the directors, United Utilities Water Limited will, for at least the next twelve months, have available to it the management resources which are sufficient to enable it to carry out those functions; and

(3) In the opinion of the directors, all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to United Utilities Water Limited, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

STATEMENT UNDER PARAGRAPH 6A.2B(1) OF CONDITION F OF THE APPOINTMENTS

The directors of United Utilities Water Limited hereby state that, in giving the certificate under paragraph 6A.2A of Condition F of the Appointments, the main factors which they have taken into account are;

- The financial position of the business at 31 March 2016 as represented by the statutory and regulatory accounts;
- Projected cash flows as represented by the business plan and budget, treasury funding plan and estimated investment and operational requirements for the Regulated Activities;
- The anticipated managerial resources available; and
- The contract provisions with associated companies.

Certified as having been approved at a duly convened meeting of a committee of the board of Directors of United Utilities Water Limited held on 10 June 2016.

____

Russ Houlden
Chief Financial Officer
10 June 2016

CERTIFICATE UNDER PARAGRAPH 3.1 OF CONDITION K OF THE APPOINTMENT

As required in paragraph 3.1 of Condition K of the Licence, the directors state that as at 31 March 2016, had a special administration order been made under Section 23 of the Water Industry Act 1991 in respect of the company, the company would have had available, in their opinion, sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the company.

Certified as having been approved at a duly convened meeting of a committee of the board of Directors of United Utilities Water Limited held on 10 June 2016.

____

Russ Houlden
Chief Financial Officer
10 June 2016

2.6) Pro forma tables not subject to KPMG audit opinion

This section of the UUW Annual Performance Report provides a copy of the two section of the pro-forma tables that Ofwat require all companies to publish, that have not been subject to financial audit opinion.

The information within these tables has been subject to detailed governance and assurance, with the nature and findings of this assurance being set out in Appendix 1 Assurance summary and findings.

The list of data tables is shown below.

Section 3 Performance summary	
Pro forma 3A	Outcome performance table
Section 4 Additional regulatory information	
Pro forma 4A	Non-financial information for the 12 months ended 31 March 2016 Number of properties and volumes
Pro forma 4B	Wholesale totex analysis
Pro forma 4C	Forecast impact of performance on RCV
Pro forma 4D	Totex analysis for the 12 months ended 31 March 2016 - wholesale water
Pro forma 4E	Totex analysis for the 12 months ended 31 March 2016 - wholesale wastewater
Pro forma 4F	Operating cost analysis for the 12 months ended 31 March 2016 – household retail
Pro forma 4G	Wholesale current cost financial performance for the 12 months ended 31 March 2016
Pro forma 4H	Financial metrics for the 12 months ended 31 March 2016
Pro forma 4I	Financial derivatives

Pro forma tables Section 3 Performance summary –

Pro forma 3A Outcome performance table

3A - Outcome performance table

For the 12 months ended 31 March 2016

Row	Performance commitment	Units	2014-15 performance level - actual	2015-16 performance level - actual	2015-16 CPL met?	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 £m absolute value	Total AMP6 reward or penalty 31 March 2020 forecast	Estimated AMP6 reward or penalty £m absoloute value
1	A1: Drinking Water Safety Plan risk score	score	4.300	4.300	Yes	Not applicable	0.000	Not applicable	0.000
2	A2: Water quality events DWI category 3 or above	nr	27.00	35.00	No	Penalty	0.447	Penalty	1.000
3	A3: Water Quality Service Index	score	108.364	120.465	Yes	Rew ard	0.227	Penalty	3.600
4	B1: Average minutes supply lost per property (a year)	time	13:25	16:42	No	Penalty deadband	0.000	Penalty deadband	0.000
5	B2: Reliable water service index	score	100.321	16.447	No	Penalty	7.974	Penalty	15.900
6	B3: Security of supply index (SoSI)	score	100.000	100.000	Yes	blank	0.000	blank	0.000
7	B4: Total leakage at or below target	nr	15.000	10.800	Yes	Rew ard deadband	0.000	Rew ard deadband	0.000
8	B5: Resilience of impounding reservoirs	nr	152.510	161.610	Yes	blank	0.000	blank	0.000
9	B6: Thirlmere transfer into West Cumbria	%	0.000	2.000	Yes	blank	0.000	blank	0.000
10	C1: Contribution to rivers improved - water programme	nr	0.000	36.840	Yes	Penalty	0.056	Rew ard	0.400
11	D1: Delivering our commitments to developers etc.	%	0.935	0.952	Yes	Not applicable	0.000	Not applicable	0.000
12	E1: Number of free water meters installed	nr	40102.000	27197.000	No	Not applicable	0.000	Not applicable	0.000
13	S-A1: Private sewers service index	score	95.200	91.690	Yes	Rew ard	7.376	Rew ard	16.000
14	S-A2: Wastewater network performance index	score	94.300	90.950	Yes	blank	0.000	blank	0.000
15	S-B1: Future flood risk	nr	0.000	16472.000	Yes	Not applicable	0.000	Not applicable	0.000
16	S-B2: Sewer flooding index	score	81.500	100.800	No	blank	0.000	Penalty	21.700
17	S-C1: Contribution to bathing waters improved	nr	0.000	0.470	Yes	blank	0.000	blank	0.000
18	S-D1: Protecting rivers from deterioration (growth)	nr	0.000	48.000	Yes	blank	0.000	blank	0.000
19	S-D2: Maintaining our wastewater treatment works	score	94.990	91.485	No	blank	0.000	Penalty deadband	13.800
20	S-D3: Contribution to rivers improved - wastewater	nr	0.000	0.768	Yes	Rew ard	0.000	0.000000	0.000
21	S-D4a: Wastewater (category 1 and 2) pollution incidents	nr	2.000	4.000	No	blank	0.000	blank	0.000
22	S-D4b: Wastewater category 3 pollution incidents	nr	212.000	136.000	Yes	Rew ard	3.278	Rew ard	9.800
23	S-D5: Satisfactory sludge disposal	%	100.000	100.000	Yes	blank	0.000	blank	0.000
24	A-1: Service incentive mechanism (SIM)	text	0.000	UQWASC	Yes	TBC	TBC	TBC	TBC
25	R-A2: Customer experience programme	£m	0.000	0.001	No	blank	0.000	blank	0.000
26	B1: Customers saying that we offer value for money	%	51.000	50.000	Yes	Not applicable	0.000	Not applicable	0.000
27	B2: Per household consumption	nr	304.100	303.000	No	Not applicable	0.000	Not applicable	0.000

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For line definitions see Excel version of the data tables

Annual Performance Report 2016

Pro forma tables Section 4 Additional regulatory information

Pro forma 4A Non-financial information

4A - Non-financial information

For the 12 months ended 31 March 2016

	Line description	Units	DPs	Current year Unmeasured	Current year Measured
	Retail - household				
A	**Number of households billed ('000s)**				
1	Water only connections	'000s	3	45.009	25.068
2	Wastewater only connections	'000s	3	25.120	16.729
3	Water and wastewater connections	'000s	3	1714.540	1098.587
4	**Total**	**'000s**	**3**	**1784.669**	**1140.384**
5	Number of void households	'000s	3	135.736	52.990
6	Per capita consumption (excluding supply pipe leakage) l/h/d	l/h/d	2	142.12	108.27

	Line description	Units	DPs	Water	Wastewater
B	**Wholesale volume (Ml/d)**				
7	Bulk supply export	Ml/d	3	11.871	0.303
8	Bulk supply import	Ml/d	3	0.631	0.000
9	Distribution input	Ml/d	3	1,722.113	

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Annual Performance Report 2016

Pro forma 4B wholesale totex analysis

4B - Wholesale totex analysis

For the 12 months ended 31 March 2016

	Line description	Units	DPs	Current year	
				Water	Wastewater
A	**Actual totex**				
1	Menu totex	£m	3	509.745	715.667
B	**Items excluded from the menu**				
2	Pension deficit recovery payments	£m	3	11.975	11.201
3	Third party costs	£m	3	2.422	0.000
4	Other adjustments	£m	3	12.980	-13.661
5	Total costs excluded from the menu	£m	3	27.377	-2.460
6	Actual totex	£m	3	537.122	713.207
7	Actual totex base year prices	£m	3	506.567	672.634
8	Allowed totex base year prices	£m	3	457.600	561.800

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Annual Performance Report 2016

Pro forma 4C Forecast impact of performance on RCV

4C - Forecast impact of performance on RCV

For the 12 months ended 31 March 2016

	Line description	Units	DPs	Current year
1	RCV determined at FD	£m	3	10209.682
2	RCV element of Totex over/underspend	£m	3	81.085
3	Allowance (Rewards/penalties - ODI)	£m	3	11.368
4	**Projected 'shadow' RCV**	**£m**	**3**	**10302.136**

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For line definitions see Excel version of the data tables

Annual Performance Report 2016

Pro forma 4D wholesale totex analysis - water

4D - Wholesale totex analysis - water

For the 12 months ended 31 March 2016

	Line description	Units	Water resources		Raw water distribution		Water treatment	Treated water distribution	Total
			Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage			
A	**Operating expenditure**								
1	Power	£m	0.000	1.159	2.807	0.000	15.730	7.599	27.295
2	Income treated as negative expenditure	£m	0.000	0.000	-0.222	0.000	0.000	0.000	-0.222
3	Service charges/ discharge consents	£m	7.726	0.000	0.000	0.000	0.000	0.000	7.726
4	Bulk supply/ Bulk discharge	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
5	Other operating expenditure	£m	0.002	18.545	7.547	0.924	79.142	131.374	237.534
6	Local authority rates	£m	0.000	14.612	2.629	3.667	6.994	33.882	61.785
7	**Total operating expenditure excluding third party servic**	**£m**	**7.728**	**34.316**	**12.761**	**4.592**	**101.866**	**172.856**	**334.119**
8	Third party services	£m	0.000	0.978	1.250	0.000	0.000	0.194	2.422
9	**Total operating expenditure**	**£m**	**7.728**	**35.294**	**14.012**	**4.592**	**101.866**	**173.049**	**336.541**
B	**Capital Expenditure**								
10	Maintaining the long term capability of the assets - infra	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
11	Maintaining the long term capability of the assets - non-infra	£m	0.000	0.000	0.483	1.564	68.014	39.040	109.100
12	Other capital expenditure - infra	£m	0.000	0.000	0.000	19.616	0.182	42.707	62.505
13	Other capital expenditure - non-infra	£m	0.000	0.151	0.000	6.523	15.398	4.100	26.173
14	**Total gross capital expenditure excluding third party ser**	**£m**	**0.000**	**0.151**	**0.483**	**27.703**	**83.594**	**85.847**	**197.778**
15	Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16	**Total gross capital expenditure**	**£m**	**0.000**	**0.151**	**0.483**	**27.703**	**83.594**	**85.847**	**197.778**
17	Grants and contributions (price control)	£m	0.000	0.000	0.000	0.000	0.000	9.172	9.172
18	**Totex**	**£m**	**7.728**	**35.445**	**14.495**	**32.295**	**185.460**	**249.724**	**525.147**
C	**Cash Expenditure**								
19	Pension deficit recovery payments	£m	0.000	1.082	0.902	0.000	5.410	4.580	11.975
20	Other cash items	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000
21	**Totex including cash items**	**£m**	**7.728**	**36.527**	**15.397**	**32.295**	**190.870**	**254.304**	**537.122**
D	**Unit cost information (operating expenditure)**								
22	Licenced volume available	Ml	2,306,651						
23	Volume abstracted	Ml		788,028					
24	Volume transported	Ml			689,488				
25	Average volume stored	Ml				17,142			
26	Distribution input from water treatment	Ml					630,293		
27	Distribution input treated water	Ml						630,293	
28	**Unit cost**	**£/Ml**	**3.350**	**44.788**	**20.322**	**267.878**	**161.617**	**274.553**	

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For line definitions see Excel version of the data tables

Annual Performance Report 2016

Pro forma 4E Wholesale totex analysis - wastewater

4E - Wholesale totex analysis - wastewater

For the 12 months ended 31 March 2016

	Line description	Units	Sewage collection			Sewage treatment		Sludge			
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
A	**Operating expenditure**										
1	Power	£m	2.411	1.853	0.775	39.985	1.942	0.002	-4.771	0.000	42.198
2	Income treated as negative expenditure	£m	0.000	0.000	0.000	0.000	0.000	0.000	-5.174	0.000	-5.174
3	Service charges/ discharge consents	£m	0.784	0.754	0.301	4.776	0.000	0.000	0.365	0.000	6.979
4	Bulk supply/ Bulk discharge	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
5	Other operating expenditure	£m	44.304	49.599	19.765	59.875	0.223	5.139	26.116	3.701	208.723
6	Local authority rates	£m	0.000	0.000	0.000	17.384	0.466	0.000	6.143	0.000	23.993
7	**Total operating expenditure excluding third party servic**	**£m**	**47.499**	**52.207**	**20.840**	**122.021**	**2.631**	**5.142**	**22.678**	**3.701**	**276.719**
8	Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9	**Total operating expenditure**	**£m**	**47.499**	**52.207**	**20.840**	**122.021**	**2.631**	**5.142**	**22.678**	**3.701**	**276.719**
B	**Capital Expenditure**										
10	Maintaining the long term capability of the assets - infra	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
11	Maintaining the long term capability of the assets - non-infra	£m	20.149	0.000	0.000	180.638	0.000	0.000	27.164	2.403	230.354
12	Other capital expenditure - infra	£m	78.258	0.000	0.000	2.923	0.000	0.000	0.000	0.000	81.181
13	Other capital expenditure - non-infra	£m	15.862	0.000	0.000	75.147	0.000	0.000	27.930	0.000	118.939
14	**Total gross capital expenditure excluding third party ser**	**£m**	**114.269**	**0.000**	**0.000**	**258.708**	**0.000**	**0.000**	**55.094**	**2.403**	**430.474**
15	Third party services	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16	**Total gross capital expenditure**	**£m**	**114.269**	**0.000**	**0.000**	**258.708**	**0.000**	**0.000**	**55.094**	**2.403**	**430.474**
17	Grants and contributions (price control)	£m	12.376	-5.140	-2.049	0.000	0.000	0.000	0.000	0.000	5.187
18	**Totex**	**£m**	**149.391**	**57.347**	**22.890**	**380.728**	**2.631**	**5.142**	**77.772**	**6.104**	**702.006**
C	**Cash Expenditure**										
19	Pension deficit recovery payments	£m	1.170	1.126	0.449	5.557	0.000	0.496	2.257	0.146	11.201
20	Other cash items	£m	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
21	**Totex including cash items**	**£m**	**150.561**	**58.473**	**23.339**	**386.285**	**2.631**	**5.638**	**80.029**	**6.250**	**713.207**
D	**Unit cost information (operating expenditure)**										
22	Volume collected foul	Ml	422,222								
23	Volume collected surface water drainage	Ml		278,211							
24	Volume collected highway drainage	Ml			110,896						
25	Biochemical Oxygen Demand (BOD) sewage	Tonnes				191,727					
26	Biochemical Oxygen Demand (BOD) imported sludge liquor	Tonnes					10,044				
27	Sludge volume transported	m3						1,408,225			
28	Sludge treatment dried solid mass treated	ttds							151.70		
29	Sludge disposal dried solid mass disposed	ttds								69.60	
30	**Unit cost**	**£/unit**	**112.50**	**187.65**	**187.93**	**636.43**	**261.95**	**3.65**	**149,495**	**53,176**	

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For line definitions see Excel version of the data tables

Annual Performance Report 2016

Pro forma 4F Operating cost analysis – Household cost

4F - Operating cost analysis - household retail

For the 12 months ended 31 March 2016

	Line description	Units	Household unmeasured				Household measured				Total
			Water only	Wastewater only	Water and wastewater	Total	Water only	Wastewater only	Water and wastewater	Total	
A	Operating expenditure										
1	Customer services	£m	0.261	0.298	15.849	16.407	0.207	0.001	12.135	12.342	28.750
2	Debt management	£m	0.010	0.011	8.423	8.444	0.017	0.000	2.666	2.683	11.127
3	Doubtful debts	£m	0.467	0.236	32.674	33.376	0.407	0.002	26.235	26.644	60.021
4	Meter reading	£m				0.000	0.104	0.069	4.552	4.726	4.726
5	Other operating expenditure	£m	0.117	0.063	5.456	5.635	0.069	0.041	3.693	3.803	9.438
6	**Total operating expenditure excluding third party services**	**£m**	**0.854**	**0.607**	**62.401**	**63.863**	**0.803**	**0.114**	**49.281**	**50.198**	**114.061**
7	Depreciation	£m	0.086	0.048	3.685	3.819	0.051	0.029	2.345	2.425	6.244
8	**Total operating costs excluding third party services**	**£m**	**0.941**	**0.655**	**66.086**	**67.682**	**0.854**	**0.143**	**51.626**	**52.623**	**120.305**
B	Other operating expenditure - breakdown										
9	Demand-side water efficiency - gross expenditure	£m									0.970
10	Demand-side water efficiency - expenditure funded by wholesale	£m									0.208
11	Demand-side water efficiency - net retail expenditure	£m									0.763
12	Customer-side leak repairs - gross expenditure	£m									1.460
13	Customer-side leak repairs - expenditure funded by wholesale	£m									0.000
14	Customer-side leak repairs - net retail expenditure	£m									1.460

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4G - Wholesale current cost financial performance

For the 12 months ended 31 March 2016

	Line description	Units	Water	Wastewater	Total
1	Revenue	£m	707.036	833.669	1540.704
2	Operating expenditure	£m	-336.541	-276.719	-613.260
3	Capital maintenance charges	£m	-155.141	-314.062	-469.203
4	Other operating income	£m	-2.087	-3.087	-5.174
5	**Current cost operating profit**	**£m**	**213.267**	**239.801**	**453.067**
6	Other income	£m	0.196	0.753	0.949
7	Interest income	£m	1.607	2.807	4.414
8	Interest expense	£m	-76.890	-134.294	-211.184
9	Interest expense related to the unwinding of discounted liabilities	£m	0.000	0.000	0.000
10	**Profit before tax and fair value movements**	**£m**	**138.180**	**109.066**	**247.246**
11	Fair value gains/(losses) on financial instruments	£m	-14.928	-26.072	-41.000
12	**Profit before tax**	**£m**	**123.252**	**82.994**	**206.246**

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4H - Financial metrics

For the 12 months ended 31 March 2016

	Line description	Units	Metric
1	Net debt	£m	6385.670
2	Regulated equity	£m	3824.012
3	Regulated gearing	%	62.55
4	Post tax return on regulated equity	%	8.44
5	RORE (return on regulated equity)	%	6.85
6	Dividend yield	%	4.72
7	Retail profit margin - Household	%	1.34
8	Retail profit margin - Non household	%	0.76
9	Credit rating	n/a	BBB+
10	Return on RCV	%	5.16
11	Dividend cover	dec	2.03
12	Funds from operations (FFO)	£m	721.184
13	Interest cover (cash)	dec	5.16
14	Adjusted interest cover (cash)	dec	2.63
15	FFO/Debt	dec	0.11
16	Effective tax rate	%	13.20
17	Free cash flow (RCF)	£m	540.817
18	RCF/capex	dec	0.81
19	Revenue (actual)	£m	1695.731
20	EBITDA (actual)	£m	943.35
21	Proportion of borrowings which are fixed rate	%	28.72
22	Proportion of borrowings which are floating rate	%	19.27
23	Proportion of borrowings which are index linked	%	52.02
24	Proportion of borrowings due within 1 year or less	%	9.06
25	Proportion of borrowings due in more than 1 year but no more than 2 years	%	2.17
26	Proportion of borrowings due in more than 2 years but but no more than 5 years	%	25.40
27	Proportion of borrowings due in more than 5 years but no more than 20 years	%	40.27
28	Proportion of borrowings due in more than 20 years	%	23.09

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Annual Performance Report 2016

Pro forma 4I Financial Derivatives

4I - Financial derivatives

For the 12 months ended 31 March 2016

	Line description	Units	Nominal value by maturity (net)			Total value		Total accretion £m	Units	Interest rate (weighted average)	
			1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market			Payable	Receivable
	Derivative type										
A	**Interest rate swap (sterling)**										
1	Floating to/from fixed rate	£m	577.104	750.000	304.234	1631.338	94.198	0.000	%	2.24	1.89
2	Floating to/from index linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
3	Fixed to/from index-linked	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
4	**Total**	**£m**	**577.104**	**750.000**	**304.234**	**1631.338**	**94.198**	**0.000**			
B	**Foreign Exchange**										
5	Cross currency swap USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
6	Cross currency swap EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
7	Cross currency swap YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
8	Cross currency swap Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	%	0.00	0.00
9	**Total**	**£m**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**			
C	**Currency interest rate**										
10	Currency interest rate swaps USD	£m	0.000	0.000	202.104	202.104	185.020	0.000	%	2.62	6.88
11	Currency interest rate swaps EUR	£m	0.000	350.350	59.664	410.014	113.429	0.000	%	1.24	3.86
12	Currency interest rate swaps YEN	£m	35.061	0.000	0.000	35.061	-4.329	0.000	%	2.27	1.29
13	Currency interest rate swaps Other	£m	0.000	0.000	54.234	54.234	43.211	0.000	%	1.16	5.02
14	**Total**	**£m**	**35.061**	**350.350**	**316.002**	**701.413**	**337.330**	**0.000**			
D	**Forward currency contracts**										
15	Forward currency contracts USD	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.00	0.00
16	Forward currency contracts EUR	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.00	0.00
17	Forward currency contracts YEN	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.00	0.00
18	Forward currency contracts Other	£m	0.000	0.000	0.000	0.000	0.000	0.000	£m	0.00	0.00
19	**Total**	**£m**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**			
E	**Total**										
20	**Total**	**£m**	**612.165**	**1100.350**	**620.237**	**2332.751**	**431.528**	**0.000**			

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For line definitions see Excel version of the data tables

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Appendix 1 - Assurance summary and findings

This assurance summary and findings is designed to demonstrate that we have complied with our published assurance plan, which was developed in accordance with the requirements of the Ofwat monitoring framework. It also sets out the key findings from this assurance process.

A) Overview and assurance framework

Company monitoring framework

In June 2015, Ofwat published its company monitoring framework for the 2015-20 period (known as AMP6). This describes how Ofwat will oversee the information provided to customers by the 18 largest water and sewerage and water only companies in England and Wales. The framework supports Ofwat's vision for the water sector in England and Wales where customers and wider society have trust and confidence in vital public water and wastewater services.

The purpose of the framework is to ensure that stakeholders can rely on the information provided by water companies and to make sure that the assurance of this information is provided in a way that can help to build trust and confidence. There are two distinct elements to the framework; a) the data assurance activities that companies put in place to provide accurate data and b) the wider assurance that they provide to demonstrate that they are listening to customers and delivering services they want and can afford.

As part of the development of the framework, Ofwat assessed companies against three categories: self assurance, targeted assurance and prescribed assurance. Along with the majority of other water companies in England and Wales, UUW was assessed as being in the targeted assurance category. As part of this framework all companies are required to provide explicit sign off on the assurance that has been provided; full transparency on the audit procedures and; a summary of the outcome of the assurance that has been carried out. As a consequence of UUW's targeted status we were also required to consult with stakeholders to identify areas requiring targeted assurance and on our proposed assurance activity for these areas.

Development of our assurance plans

In October 2015, we published and asked for views on our statement of risks, strengths and weaknesses associated with providing information to customers and stakeholders. This report reviewed the risks associated with our reporting and identified a number of target areas, which were either as a result of the potential for reporting inaccurate data or in terms of the consequence of the data. The feedback we received from stakeholders confirmed that they generally agreed with the areas we had identified and they told us that an additional area of high importance to them was the Service Incentive Mechanism (SIM).

In January 2016, we published our draft assurance plan for consultation. This included details of our regulatory reporting assurance framework and the risk assessment process that had been used to underpin our assurance plan. The draft assurance plan included details of our assurance activity for the targeted areas identified in the risks strengths and weaknesses statement, together with SIM.

The feedback we received on the draft assurance plan was generally positive in terms of the proposed governance and assurance activities. Feedback from a number of stakeholders highlighted the importance of the way that we communicated the key messages from the Annual Performance Report and as such, we have worked with the independent customer challenge group, YourVoice, to develop a more accessible and engaging summary performance report, which is designed to complement this detailed and predominantly technical report.

Between the publication of the draft and the final assurance plans one new-targeted area was added to the assurance plan, sewer flooding, which had been significantly impacted by the rainfall events over the winter months. We published our final assurance plan in March 2016, with this appendix summarising the assurance activities that have been undertaken and the findings from that assurance

The detailed outcome of our 2015/16 assurance activity will be used to inform the statement of risk, strengths and weaknesses for 2016/17 that we will publish in the autumn and be used as part of a continual improvement process.

Assurance framework:

Appendix 2: (UUW regulatory reporting assurance framework) of our 2015 Risk Strengths and Weaknesses statement sets out the assurance activities that we have put in place to provide reliable, accurate and complete data, together with the wider assurance activities that we have undertaken or initiated to ensure that we can effectively listen to our customers and other stakeholders' views and continue to deliver the services that they want and can afford. This appendix contains seven sections, which are summarised below:

- **Specific reporting requirements** – setting out the information that is reported on within the Annual Performance Report.
- **Additional transparency and publications** – setting out that in addition to publishing the minimum information requirements set out by Ofwat within the Annual Performance Report, UUW is committed to providing regular and transparent reporting of our performance and using a broad range of communications channels to communicate with our customers.
- **Independent challenge and review –** To ensure that our reporting is independently challenged we have established a new independent stakeholder forum called: "YourVoice". This forum builds upon the work of the Customer Challenge Group (CCG) that we worked with in developing our PR14 business plan submissions. The role of YourVoice is to both monitor and challenge us on the delivery of our business plan, to review and assure our reporting and to scrutinise our customer engagement on the development of our future business plans.
- **Measurement and data capture –** Showing how the data required to report on the delivery of our outcomes and other commitments have been developed to be a sub set of our routine and often long standing operational and management data reporting that is directly used to support and direct key business activities. It also describes our centralised reporting function, which has accountability for both assuring the quality of the data and for providing a single source of management information which can be used throughout the business.

- **Risk based assurance of our regulatory reporting –** Showing how UUW has adopted a structured risk assessment process to underpin the governance and assurance processes supporting our regulatory reporting. The risk assessment approach builds on the approach we took during AMP5, with this process having been cross-referenced against the approach recently produced by Ofwat and updated to reflect the requirements of Ofwat's Company monitoring framework.
  - It also shows how the overall combined risk rating is used to help to determine the level of governance and assurance that is applied to the reported information. This approach ensures that as the level of risk increases the governance and assurance applied to the reporting of this data also increases and makes sure that key risks are escalated up to Board level and the reporting of this data is subject to detailed independent assurance.
  - In addition to supporting the governance and assurance processes applied to the regulatory data, the results of this risk assessment are also used to ensure that the management, control and reporting of any risks identified through the process are proportionate to the level of risk.
- **Governance and accountability –** Setting out that United Utilities is committed to the very highest standards of corporate governance and showing how the UUW Board manages the effective and efficient delivery of its obligations and operation of everyday activities.
  - It also sets out the Operational governance and review process that we apply including the agreed accountability and risk based review and sign off of the regulatory data**.**
- **Audit and assurance of our regulatory reporting –** setting out that UUW has adopted a well-established "three lines of defence" assurance framework. This framework is specifically tailored to different reporting and assurance activities. The approach was implemented during 2010-15 period and is now used for regulatory and other key reporting processes. The three lines of defence are;
  - First line - management has accountability for developing and maintaining sound processes, systems and controls in the normal course of their operations
  - Second line - The Economic Regulation or Finance teams, where applicable have accountability for providing the framework and governance for our regulatory reporting. With our Corporate Audit team undertaking rolling and cyclic audit activity and targeted reviews of key submissions
  - Third line - Independent audit and assurance activities are undertaken by specialist external auditors.

This framework has been used to support the development of the information within the Annual Performance Report, with assurance applied at three main levels; within the business itself, at UUW Board level and via independent challenge and review.

Application of the three lines of defence to the Annual Performance Report

We have used our established processes and methodologies for reporting performance. This requires data providers, their managers and business unit directors to produce and approve "Performance and Compliance Statements" that set out the evidence used to support the reported performance levels and to confirm that control checks have been correctly and successfully applied. Regulatory performance data is collected and internally assured at month 6, month 9 and year-end.

The reported information is compared to our company business plan targets, regulatory targets and historic performance. This exercise allows variances to be identified and explored. Explanatory statements are sought from business managers when results vary from those expected or are below anticipated targets. These statements are analysed and assessed by the Economic Regulation or Finance teams and findings are reported to the relevant Executive Director.

Business Unit Directors are required to complete a 'Management Control Self-Assessment'. This provides confirmation that reporting processes and systems of internal control are robust, and any actions identified during the report year have either been addressed, or have actions scheduled to return them to a position of compliance.

Reviews of the company's regulatory reporting processes are also undertaken annually by UUW's Corporate Audit team and external technical auditors HMS. Their findings are reported to the UUW Board to aid the Board's decision to approve the Annual Performance Report. Whenever possible any risks or issues identified are addressed immediately. Where this is not practical, they are built into an improvement plan for the following year's regulatory reporting cycle.

The YourVoice independent panel also review and challenge our performance and reporting. In the AMP6-period the new independent panel YourVoice have also provided an additional part of the third line of defence and add their findings to those of UUW's Corporate Audit team and the external technical and financial auditors to aid the Board's decision to approve the annual suite of performance and financial reports.

Board level accountability and control

The UUW Board manages the effective and efficient delivery of its obligations and operation of everyday activities within the business through the interaction of:

- **Authorisations, approvals and procedures**. These are set out in the United Utilities Group PLC (UUG) Internal Control Manual (ICM) to provide guidance to employees as to the system of internal controls which they must follow when acting on behalf of UUW and UUG as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.

- **Policies.** The UUW Board has adopted an overriding set of business principles. These are supported by a range of underlying policies that provide guidance to its employees as to how they should conduct themselves when acting on behalf of UUW and UUG as a whole. Everybody working for or on behalf of UUW must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal prosecution in serious cases.

- **Governance and control**. The UUW Board delegates responsibility for specific matters to a number of committees and working groups. This provides a framework that employees are expected to be aware of and comply with where relevant to their role to ensure business decisions are taken in accordance with best business governance practices.

- **Regulatory reporting.** The UUW Board signs off the Annual Performance Report, based upon the assurance processes set out above.

B) Annual Performance Report assurance plan

The Annual Performance Report (APR) final assurance plan is published on our website link.

This plan sets out that all data reported in the APR will be subject to a structured and risk based governance and assurance process, which is summarised in the table below.

Risk based assurance plan for the 2015/16 Annual Performance Report

<table>
<tr><th>Section</th><th>Content</th><th>Governance and assurance activities</th></tr>
<tr><td>Compliance statement</td><td>Annual statement confirming compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers</td><td>Signed off by the UUW Board, based upon the defined governance and assurance approach relevant for each obligation.</td></tr>
<tr><td>Regulatory financial reporting</td><td>Historical cost financial information. Disaggregation of income, from a regulatory accounting perspective, with reconciliation to the UU statutory accounts.</td><td rowspan="2">1. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
2. Finance team review of information and audit trails.
3. Financial Auditors (KPMG) audit as set out in the audit opinion on pages 69 to 72.</td></tr>
<tr><td>Price review and other segmental reporting</td><td>Further separation of revenue and costs to allow stakeholders to review companies' performance against the final determination.</td></tr>
<tr><td>Performance summary</td><td>A high-level report of the operational performance of the business against the performance commitments set out in the PR14 final determination, highlighting any financial incentives accrued in the year.</td><td>1. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
2. Economic Regulation team review of information and audit trails.
3. Technical Auditors (HMS) review data and commentary and report opinion to the Board.</td></tr>
<tr><td>Additional regulatory tables</td><td>Additional financial and non-financial information, including wholesale totex performance against both the PR14 final determination assumptions and intercompany unit cost metrics, retail operating cost analysis and financial metrics.</td><td>1. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied.
2. Economic Regulation team review of information and audit trails.
3. Financial Auditors (KPMG) or Technical Auditors (HMS) procedures as agreed with management on the relevant tables in Section 2.</td></tr>
</table>

Targeted areas, mitigation and assurance

In addition to the generic assurance processes that have been applied to all of the data within the APR, we also reviewed the potential risks to our reporting as part of the development of the assurance plan.

This risk assessment process confirmed that our established systems of governance and control were effective in identifying and managing reporting risk levels. The areas we identified in our final assurance plan were therefore, as a result of new reporting requirements, organisational changes, which involved reporting by new teams or via new systems/processes, areas where there had been specific incidents in the year or areas where there was particular stakeholder interest.

The targeted areas identified in the final assurance plan are set out in the table below

Areas identified as requiring targeted assurance

Targeted area	Reason
Outcome delivery incentives	New AMP6 reporting requirement, stakeholders told us this information is important to them and there is a financial incentive associated with performance against these measures.
Prediction of end of AMP (2020) performance levels	New AMP6 reporting requirement to publish forecast performance. The information provides a forecast of penalty/reward accrued over the period 2015-2020 period.
Profile of water quality performance	Following the major incidents in 2015/16 there was a significant increase in customer contacts and Guaranteed Standard Scheme payments to customers. We acknowledge this may have impacted upon stakeholder confidence and expectations therefore details of our planned assurance have been included in the final assurance plan.
Profile of water supply interruption performance	
Sewer flooding	Severe weather this winter has caused an increase in the number of incidents towards the end of the reporting year. Details of our planned assurance of the measurement, monitoring and reporting of these incidents have been included in the final assurance plan.
Service incentive mechanism	Stakeholders told us this information was important to them and we anticipate a change in performance associated with the water quality and water supply incidents mentioned above.
Price control and segmental reporting	New reporting requirements for AMP6, utilising new systems and process to provide greater disaggregation of cost allocations.
Market reform	New organisational structures and reporting requirements, requiring changes to processes and systems in preparation for opening of the business retail market.

The Final Assurance Plan contains full details of the reason for the targeted status, the ongoing and planned activity to mitigate the risks and the planned activity to assure our reporting in these areas. The corporate audit report and findings confirms that the assurance activities included within the Final Assurance Plan have been complied with.

C) Summary of the findings of the assurance

This section of Appendix 1, sets out the summary of the findings of the assurance that has been undertaken to support the Annual Performance Report.

Financial auditor – We have employed KPMG to provide an audit opinion or perform procedures as agreed with management on the regulatory accounting information set out in the table below. The coverage of the KPMG audit opinion is set out in more detail together with the findings from this review on pages 69 to 71 within Section 2.2 of the Annual Performance Report (Regulatory Accounts). KPMG have also completed agreed upon procedures for the Section 4 pro forma tables identified in the table below, with no issues noted.

Technical Auditors – We have employed Halcrow Management Sciences Limited (HMS), who are part of CH2M, to review the performance and volume data used to support the remainder of the data within the APR tables, including the outcome delivery information. Their findings are set out below.

Corporate audit – UU corporate Audit have undertaken an independent peer review of the effectiveness and application of the assurance framework applied to the APR.

In addition **YourVoice**, the independent challenge group, have reviewed our performance and reporting throughout the year and presented their findings directly to the UUW board. They have also published their view on United Utilities' performance during 2015-16, which can be found here.

The table below sets out each area of the APR and shows how the independent assurance has been provided for that area.

UUW Annual Performance Report data tables – independent assurance

Data - Tables			
Section 1 Regulatory financial reporting		Lines	Independent assurance
1A	Income statement	All	KPMG audit opinion
1B	Statement of comprehensive income	All	KPMG audit opinion
1C	Statement of financial position	All	KPMG audit opinion
1D	Statement of cash flows	All	KPMG audit opinion
1E	Net debt analysis at 31 March 2016	All	KPMG audit opinion
Section 2 Price review and other segmental reporting			
2A	Segmental income statement for the 12 months ended 31 March 2016	All	KPMG audit opinion
2B	Totex analysis for the 12 months ended 31 March 2016- wholesale water and wastewater	All	KPMG audit opinion
2C	Operating cost analysis for the 12 months ended 31 March 2016 – retail	All	KPMG audit opinion
2D	Historical cost analysis of fixed assets (wholesale water, wholesale wastewater &retail business)	All	KPMG audit opinion
2E	Analysis of capital contributions and land sales for the 12 months ended 31 March 2016 – wholesale	All	KPMG audit opinion

2F	Household – revenue by customer type	All	KPMG audit opinion
2G	Non-household water – revenues by customer type	All	KPMG audit opinion
2H	Non-household wastewater – revenues by customer type	All	KPMG audit opinion
2I	Revenue analysis & wholesale control reconciliation for the 12 months ended 31 March 2016	All	KPMG audit opinion
Section 3 Performance summary			
3A	Outcome performance	All	HMS agreed upon procedures
Section 4 Additional regulatory information			
4A	Non-financial information for the 12 months	All	HMS agreed upon procedures
4B	Wholesale totex analysis	All	KPMG agreed upon procedures
4C	Forecast impact of ODI performance on RCV	All	KPMG agreed upon procedures
4D	Totex analysis for the 12 months ended 31 March 2016 – wholesale water	1-21	KPMG agreed upon procedures
4D	Totex analysis for the 12 months ended 31 March 2016 – wholesale water	22-28	HMS agreed upon procedures
4E	Totex analysis for the 12 months ended 31 March 2016 – wholesale water	1-21	KPMG agreed upon procedures
4E	Totex analysis for the 12 months ended 31 March 2016 – wholesale water	22-28	HMS agreed upon procedures
4F	Totex analysis for the 12 months ended 31 March 2016 – wholesale wastewater	All	KPMG agreed upon procedures
4G	Totex analysis for the 12 months ended 31 March 2016 – wholesale wastewater	All	KPMG agreed upon procedures
4H	Financial metrics	All	KPMG agreed upon procedures
4I	Financial derivatives	All	KPMG agreed upon procedures

Halcrow Management Sciences Limited technical assurance report to the Board of United Utilities Water Limited

1. Introduction

From the 2015/16 year end, the first reporting year of AMP6, all water companies are required by Ofwat to submit an Annual Performance Report (APR) to demonstrate compliance with their separate price controls. This includes specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. For United Utilities Water (UUW), data used to populate the APR has been predominantly derived from their RR16 data submission.

The reports are required to be accessible to all stakeholders so that they show how the sector is delivering for its customers, environment and wider society and in this regard, Ofwat has provided a series of standard templates and accompanying guidance for the outcome, performance commitment and incentive mechanisms. The information in the spreadsheet will assist stakeholders to track and compare actual performance.

Each company's board is accountable for the quality and transparency of the information they provide on their performance and for implementing assurance procedures to make sure they meet all of their legal and regulatory obligations.

Halcrow Management Sciences (HMS) has been engaged by UUW to provide external technical assurance, that specific technical and expenditure elements of the RR16 have been compiled in accordance with good practice and the PR14 Determination. The report below sets out our approach. Our key findings are summarised in Appendix 1 and 2.

HMS is a CH2M Hill Company but operates independently to ensure confidentiality and to avoid conflicts of interest.

2. Role and Scope

HMS has been engaged to provide an independent review of UUW's compliance and governance processes covering the key technical information presented in or supporting their regulatory performance and public domain information reports.

The scope of our work has been determined by UUW, and agreed in our Outline Assurance Plan, dated 4th April 2016, which is summarised as follows:

RR16 information, which includes:

- General information
- Customer service
- Operational activities and performance
- Networks and treatment
- Other miscellaneous metrics

The majority of this information is prepared using the guidelines set out by Ofwat for June Return information up to 2012, where detailed Reporting Requirements can be used to assess compliance and consistency of reporting over time and between companies.

Performance Commitments/Measures of Success

The requirements for this information were established at PR14 where the definitions were documented for the performance commitments, the AMP6 targets and operating thresholds were set and penalty/reward mechanisms were agreed for a number of these.

Many of the components involved in the Measures of Success are developed from the RR16 information above, and we checked to ensure each Measure of Success had been populated with the appropriate RR16 performance data. Our key findings relating to the MoS are summarised in Appendix 2.

3. Approach

3.1 Process

Our approach is summarised in the following steps:

1. Agree Scope with UUW
2. Produce and agree Assurance Plan
3. Review preliminary topic information
4. Undertake Face-to-Face Audits
   - Check that the Company's reported data conforms to the published guidance (generally JR11 Ofwat Reporting Requirements or KPI guidance)
   - Identify and examine the material assumptions to assess their reasonableness, and challenge those which we deem to be inappropriate
   - Where appropriate, test on a sample basis, UUW's approach against its stated methods, procedures, policies and assumptions, and reliability of source data
   - Review the appropriateness of the confidence grades assigned,
   - Assess performance in the Report Year and check consistency against that of previous years and,
   - Ensure relevant performance data has been accurately utilised in the calculation of the various Measures of Success, where applicable.
5. Summarise Audit Findings
6. Close out key issues – through iteration between auditor and UUW specialists, escalating through both organisations where appropriate to agree, as appropriate: adjustment to reported information; future action plans; or additional statements which provide adequately transparency of the issue.
7. Presentations and preparation of Reports and Assurance Statement.

3.2 Assessment

We use the following RAG coding to simply highlight the areas of concern

Figure 1

RAG Criteria used in HMS Assessments for RR16 and Measures of Success information

Key to Audit RAG status	
R	Material concerns over the validity of the submission
A	Minor concerns over reported data or concerns over supporting documentation
B	Content with reported information but supporting data needs completion/noting/future improvements required
G	No material exceptions and compliant with the requirements

The following tests are applied to the data presented and accompanying commentaries:

Figure 2

Example of Tests applied to RR16 and Measures of Success information

RR16 Table Criteria	RAG	Assessment
Independent Review of Performance and Reporting	Green	Performance good. Reporting process well managed
Methodology	Green	Methodology consistent with current process, control points identified and understood
Assumptions	Green	Assumptions reasonable and appropriately applied
Source Data	Green	Source data is clearly identified, complete beyond material concern, well managed through to accurate systems input
Clarity of Audit Trails	Green	Detailed and comprehensive audit trail to all numbers available
Confidence Grades	Green	Confidence grade appropriate and rationale clearly documented
Governance	Green	Responsibilities for integrity of data and commentary clearly defined. Good evidence of engagement and of final sign-off

MoS Criteria	RAG	Assessment
MoS Performance Data	Green	Performance figures are accurately carried forward to the Measure of Success and correctly calculated in accordance with Ofwat's final PR14 methodology

4. Findings

Below we highlight the exceptions and other key findings.

A Summary of the exceptions and recommended areas for improvement have been identified is shown in Appendix 1.

Detailed reports of each RR16 and associated Measure of Success audit will be provided under separate cover.

4.1 RR16 and Measures of Success

- **The reported data is materially compliant with Ofwat's Reporting Requirements (PR14 and/or June Return as appropriate)**
- **There are no RED or AMBER status concerns remaining**
- **The commentaries and statements provide a fair and balanced commentary of the Company's 2015/16 circumstances and performance**
- Procedures and assumptions are generally reasonable and well embedded, well documented and appropriately implemented
- UUW staff were well prepared for the audits, knowledgeable, helpful and receptive
- There is very good evidence of senior management engagement
- There are a few areas where we have raised concerns, but mainly for UUW to review their processes and to watch the trends over the coming year, as summarised below (or see Appendix 1 and 2 for further details):

	RAG Status			
Summary of Current Issues - RR16 & MoS	**R**	**A**	**B**	**G**
Recommendation to alter/improve methodology/assumptions	-	-	27	-
Errors in proposed data identified	-	-	19	-
Evidence of document control and sign-off not available	-	-	14	-
Performance below target for the year	-	-	10	-
Possible misinterpretation of guidance identified	-	-	7	-
Confidence Grades needed or change recommended	-	-	7	-
P&CS and Methodology not completed	-	-	6	-
Capex variance analysis Incomplete at time of audit	-	-	5	-
Poor audit trail in place	-	-	3	-
Totals	**-**	**-**	**97**	**868**

As highlighted above, there are no Red or Amber concerns outstanding. Whilst a number of observations and minor process failings were identified (97 blue out of 965 RAG cells assessed), the findings did not have a material impact on reported performance. By way of example, we have included a summary of some of the blue issues identified for RR16:

DG3 – Interruptions to supply - Whilst there has been a noticeable deterioration in performance reported for 2015/16 against this parameter, this is consistent with the significant outage events experienced by UUW during the year. However, our main concern related to the absence of documented audit trails to support the assessments undertaken to calculate the number of properties affected by an interruption to supply. Whilst we have confidence in the process adopted to complete these assessments and were able to replicate a sample of assessments during audit, we recommend that evidence is retained to support each assessment undertaken.

DG5 – Sewer Flooding (part of the – Sewer Flooding Index MoS) – During the year UUW were significantly impacted by a number of severe weather events between November and January 2015/16, resulting in an increase in the number of properties suffering from internal flooding. Whilst this had an impact on the reported Sewer Flooding Index for 2015/16, with performance falling within the 'dead band' between reward and penalty, we consider UUW has potentially over reported the number of non-severe weather flooding incidents. Application of the Company's methodology for severe weather has resulted in the Company including a large number of flooding incidents that appear to have been caused by the severe weather events. We recommended that the Company undertake further analysis to assess the true impact of Storms Desmond, Eva and Frank.

SIM (MoS – R-A1) - 2015/16 SIM performance is below the Company's target of 84 points primarily due to a lower than expected customer satisfaction score, exacerbated by the major incidents affecting the Company during the year. The Measure of Success (upper quartile position amongst water and sewerage companies) is unlikely to be achieved, but until Ofwat report annual 2015/16 SIM combined performance, UUW are unable to confirm their relative position in the industry.

Table 5 – DG7 Written Complaints (Business Retail) – There are some remaining issues with the CRM system's ability to capture and provide a timely response to all correspondence from business retail customers. We found that a number of business retail written contacts were still outstanding at year end and not processed in time for RR16 reporting (however, confidence grades were amended to reflect this). We confirm however, despite the above, that performance has improved significantly from RR15 and UUW has developed a number of manual processes to ensure all contacts reported through the CRM system are captured and reported.

Table 5b - Wanted/Unwanted Telephone Contacts – UUW established an information message line for boil-water updates (during the Franklaw incident) and directed some customers to use this line for information and updates on the incident. Customers were able to hold the line to speak to an agent, with these calls being recorded as unwanted contacts. The remaining calls to the line, where the customer hung up after hearing the message were classed as wanted contacts. Whilst the number of contacts are not material (circa 36,000), it is unclear whether this interpretation is fully in keeping with Ofwat's guidance.

5. Independent Technical Assurance Statement

Halcrow Management Sciences has been appointed by United Utilities Water to provide independent technical assurance of the data that feeds into their regulatory submissions.

Through a series of meetings and information exchanges, we have reviewed and tested the methodologies, processes and supporting evidence on which the statements in the Annual Performance Report 2016 are based, and we have considered the material accuracy of these statements, the performance data presented and the conclusions drawn by United Utilities Water. Our detailed findings will be provided under separate cover.

On the basis of our audit work and with exceptions as noted in Appendix 1 and 2, we are satisfied that the information within and which supports the RR16 has been assembled using appropriate data and methodologies and provides a reliable representation of Company performance. There is also good evidence of senior management engagement, governance and programme management.

GA Hawken

Technical Assurance Director

Halcrow Management Sciences Limited

28 June 2016

Halcrow Management Sciences Limited

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Corporate Audit review of regulatory reporting 2015/16

1 Introduction and Purpose of memo

1.1 Introduction

Corporate Audit perform a review of the Regulatory Reporting process every year as part of the approved annual audit plan. The objectives and scope of the review for 2015/16 were issued to the business on 18 May 2016 and are enclosed in Appendix 1 of this memo for reference.

1.2 Purpose of memo

The purpose of this memo is to report the results of the audit work carried out by Corporate Audit, as described within Appendix 1, to support the sign off of the Annual Performance report for 2015/16 by the UU Board.

2 Conclusion

Based on the work carried out, we are satisfied that data reported in section 2 of the Annual Performance Report is supported by underlying systems, data and tables, and that it has been compiled in accordance with RAG "*Guideline for the format and disclosures for the annual performance report*".

The overall governance arrangements in place and assurance activities to ensure the regulatory data is completed accurately, completely and to the required timescales have been followed sufficiently in accordance with the published Assurance Plan, and the proposed Assurance Report is a fair reflection of the associated assurance activities and results thereof.

No issues of significant were noted across our areas of scope. In addition to the above, we reviewed the overall APR document as it was being prepared for issues of presentation and consistency. We fed back our observations and suggestions to Economic Regulation in real time such that they could be responded to and then confirmed that the required changes had been incorporated by them into the APR.

Appendix 1 - Background, objectives and scope of review

Background

Ofwat has set out its approach to monitoring and assuring the delivery of the AMP6 contract. The two key elements of this framework are:

- The new Annual Performance Report, which sets out the minimum information that Ofwat will require; and
- The Company Monitoring Framework, which sets out the review and assurance processes that need to be established to support UU's reporting.

The Annual Performance Report, together with a summary of the results of the data assurance ('Assurance Report'), needs to be published by 15 July each year. Our audit is therefore timed to provide assurance over the process by which this regulatory data is compiled in advance of UUW Board sign off.

The Annual Performance Report

Ofwat require companies to report on their financial and operational performance against the PR14 determination in a new Annual Performance Report. This will include information that is specific to customers and stakeholders, together with information that is designed to be comparative across the sector.

Ofwat's minimum requirements are that a risk and compliance statement is published which sets out how the company has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate any risks it faces. This is supplemented by a series of tables and supporting commentary in four main Sections:

- Section 1: Regulatory financial reporting;
- Section 2: Price control and additional segmental reporting of costs and revenues;
- Section 3: Performance summary (including outcome delivery performance); and
- Section 4: Additional regulatory information (including totex and financeability information)

UUW also intends to publish its report in a "customer friendly" format and include appropriate additional commentary to enable customers and other stakeholders to effectively interpret the information. The detailed coverage and format of the report will be agreed with UUW's customer forum, YourVoice.

The Company Monitoring Framework

This is designed to ensure that stakeholders can have confidence in the information that is provided by water companies and to make sure that the assurance of this information is provided in a proportionate way. The framework considers both the data assurance activities that companies put in place to provide accurate data and the wider assurance that they provide to demonstrate that they are listening to customers and delivering services they want and can afford.

UUW's approach to the framework

As part of the initial development of the framework, Ofwat assessed companies between three categories: self- assurance, targeted assurance and prescribed assurance. As UUW was placed in the central "targeted" assurance category, it is also required to carry out an exercise with stakeholders to target issues to address and then to develop and publish three documents.

- A statement of risks, strengths and weaknesses in regulatory reporting (*published October 2015*). This is a consultation document, with Ofwat being one of those consulted.
- A draft assurance plan (*published December 2015*) reflecting feedback on the statement of risks, strengths and weaknesses. Ofwat had no material comments on the risks, strengths

and weakness statement with stakeholder comments generally being supportive. UUW's plan reflects this feedback, together with the results of the six month regulatory reporting process.

- The final assurance plan, setting out the assurance that will be adopted for that year's annual regulatory reporting cycle. *This was published in March 2016* and reflects further feedback, together with the results of UUW's internal 'nine month' regulatory reporting process.

With Corporate Audit's guidance, governance arrangements have been depicted by Economic Regulation through the '3 lines of assurance' model and are built upon the established processes in place for previous years' annual regulatory reporting. Important aspects of this activity are:

- All data is subject to data owner and senior manager sign-off and independent expert / peer review of supporting information and audit trails.
- Additional internal review and sign-off at more senior levels depending on the risk profile with "critical" data items being taken to the Board for sign-off.
- The relevant elements of the Regulatory Accounts will be subject to either an annual audit opinion or procedures as agreed with management by the external auditors (KPMG).
- All of the regulatory performance data (ODIs) will be subject to an annual review by the external technical auditors (Halcrow).

Key Risks

The overall risk is that inaccurate, incomplete or misleading data/information is reported to the Regulator, as a consequence of inadequate business processes, resulting in regulatory action being taken against the Company and/or its individual Directors. Consequently, financial penalties could be imposed together with a loss of confidence by customers and investors.

Audit Objectives

The objective of the audit was to provide assurance over the governance, processes and key controls over the production of the regulatory reporting for 2016, including the Annual Performance Report and the Assurance Report. The review was carried out alongside the preparation of the Regulatory Reporting data and therefore we fed back any observations in real time prior to its finalisation and UUW Board approval.

Scope

The scope of this review supplements the assurance provided by KPMG and Halcrow Management Services Ltd (HMS), providing the Board with assurance over the 2015-16 regulatory reporting in advance of the Board sign-off of the Annual Performance Report and Assurance Report prior to publication July 2016.

The audit covered the following areas:

- The consistency of the data reported in Sections 3 and 4 of the Annual Performance Report pro forma tables. This will include sample testing to agree data back with underlying records and systems; Note: this review will not duplicate the Halcrow review of the ODI (Section 3) data collection and reporting processes, or the agreed upon procedures carried out by KPMG in Section 4;
- Consistency of the reported data with the commentary and compliance of the reported data with key aspects of Regulatory Guideline 3.08 "Guideline for the format and disclosures for the annual performance report";
- Overall governance arrangements in place to ensure the regulatory data is completed accurately, completely and to the required timescales;

- Confirmation that assurance activities detailed in UU's published Final Assurance Plan have been completed in line with the plan; and
- Review the proposed Assurance Report (to be published along with the Annual Performance Report 2015/16) to ensure it is a fair reflection of the associated assurance activities and results thereof.

Exclusions from scope

The review did not cover:

- Verification of all the regulatory data or compliance with regulatory obligations;
- Sections 1 and 2 of the Annual Performance Report pro forma tables on pages 73 to 86 which are subject to external audit by KPMG with opinion;
- Review of the ODI data collection, incentive calculations and reporting processes as this will be performed by the technical auditor, Halcrow;
- An assessment of the underlying adequacy of other assurance activities performed or the competency and objectivity of the assurance provider. However we will consider, by reference to the scope and provider, the appropriateness of the assurance activity given the nature of the risk; and
- The regulatory performance of the business.

Appendix 2 – Summary of work carried out and findings

- **The consistency of the data reported in Sections 3 and 4 of the Supporting Tables to the Annual Performance Report including sample testing to agree data back with underlying records and systems.**
  We selected a sample of ten Table data line sets and ten Measure of Success (MoS) statements lines. The Table data, including the data supporting the MoS Statements, was traced back to the underlying records with reference to the supporting Methodology Statements. No issues were noted

- **Consistency of the reported data with the commentary and compliance of the reported data with key aspects of Regulatory Guideline 3.08 "Guideline for the format and disclosures for the annual performance report".**
  We reviewed the content of the Annual Performance Report against the requirements set out in RAG 3.08 for omissions or contradictions. No issues were noted.

- **Overall governance arrangements in place to ensure the regulatory data is completed accurately, completely and to the required timescales.**
  In respect of sample data from the sample used above, we ensured that the management review of the Performance and Compliance Statements, Methodology Statements and Measure of Success Statements had been evidenced in line with the Assurance Plan. Where the sample data and supporting narrative in respect of Measures of Success appeared in the final Annual Performance Report, we also ensured consistency with the source documentation. No issues were noted.

- **Confirmation that assurance activities detailed in UU's published Final Assurance Plan have been completed in line with the plan.**
  We reviewed a Draft Extract from the KPMG report, and were able to confirm that this covered all their areas of responsibility identified in the Final Assurance Plan.
  Corporate Audit was the designated provider of APR assurance in respect of Table 4H, 'Financial Metrics' and 4I 'Derivatives'. No issues were noted.

- **Review the proposed Assurance Report, to be published within the Annual Performance Report 2015/16, to ensure it is a fair reflection of the associated assurance activities and results thereof.**
  Our review covered the consistency of the narrative explanations and the supporting data also reported within the APR. Our other work in this area included a review of the underlying Risk Assessment methodology, including assessment of source data quality and results of the annual reporting on the Management Control Self- Assessment process. No issues were noted.

In addition to the above, we have reviewed the APR document for issues of presentation and consistency, as the document was being prepared. We fed back our observations and suggestions to Economic Regulation in real time such that they could be responded to and then confirmed that the required changes had been incorporated by them into the APR.