United Utilities 2016/17 Annual Performance Report

Contents

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 represents the principal activity of the United Utilities group. UUW is regulated by Ofwat, the economic regulator of the water sector in England and Wales. One of the key parts of the regulatory process is the price review, 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 April 2015 to March 2020 period (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 assumptions during the 2014 price review.

The Annual Performance Report

The Annual Performance Report is designed to provide customers and other stakeholders with a detailed and transparent commentary on our performance in 2016/17.

Ofwat set out its expectations for annual performance reports in Information Notice 17/03. This specifies the common information that companies are required to publish about their performance, but allows companies freedom in the way that they choose to present this information.

Nature and assurance of our reporting

Ofwat expects companies to provide information to their customers and stakeholders that enables them to understand how the company is performing and to have processes in place to ensure that this information can be trusted. Providing information that is easy to understand and navigate allows customers and other stakeholders to challenge companies' performance and encourages them to deliver better services.

As part of Ofwat's approach to monitoring and assuring delivery it expects Companies to have processes in place to ensure that this information can be trusted ('assurance'). It uses the "company monitoring framework" – a series of tests of the quality of each company's information − to provoke and challenge the 17 largest companies to publish information that can be trusted.

As part of this annual review Ofwat rates each company depending on the quality of its information. The rating companies get decides the level of assurance that Ofwat expect from them in the future. The higher the rating, the more freedom that companies get over the assurance that they provide. The lower the rating, the less freedom they get.

In Ofwat's 2015/16 assessment UUW, along with South East Water and Severn Trent Water, were moved to the highest rating "self-assurance". This allows UUW more discretion in the assurance that we put in place and means that we are not required to consult with stakeholders to target issues to address and publish plans for our assurance.

We do, however, continue to believe that it is important to be transparent in our assurance. Accordingly, during 2016/17 we published and consulted on a "Risks, strengths and weaknesses and draft assurance report" and then following feedback published our "Final Assurance Plan" for our 2016/17 reporting. These publications are available on our website.

ii) Coverage of the report

Our overall approach to reporting

We were pleased to have been placed in the self-assurance category by Ofwat in 2015/16. We have, however, continued to actively seek feedback on our 2015/16 reporting. In addition to the feedback on our draft and final assurance plans, we held two targeted focus groups for household and non-household customers and held mini-group discussions with members of YourVoice.

The feedback we received has been reflected in the development of a broader suite of reports for 2016/17 and in enhancements to our website to make this information more accessible.

The Annual Performance Report (APR) 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 United Utilities Group is reliable, accurate and transparent.

The key report from a group wide and financial perspective is the United Utilities Group PLC Annual Report and Financial Statements. This report is designed to provide detailed information on the financial position and governance of the group and is mainly targeted at 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 we have used our website to communicate our news more regularly. We believe this is an effective and timely way of keeping 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 employees, customers and our impact on the environment.

Our website contains substantial additional guidance and supporting information for customers, including information on how they can contact us or 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 AMP6 and, to some degree, allows comparison 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 2015-2020 business plan commitments to customers and stakeholders. As an independent body of individuals from different sectors and backgrounds and with a variety of 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 here.

During 2016/17, we continued to report performance to YourVoice on a quarterly basis to allow the panel to evaluate how we are performing in delivering our commitments to customers. We sought the panel's views on how we communicate performance to customers and their feedback has helped to shape the document "Our performance 2016-17: a summary guide." This customer-focused guide has been published alongside this report and provides a succinct and more accessible summary of our performance and progress in delivering against our promises.

In addition to this guide, for 2016/17 we have reflected the customer feedback and have sought to provide a more modern and digital feel to our reporting and provided an enhanced landing page on our website with more direct content on this site. We produced an animation setting out the key points and messages from the APR and published this on our website. Both this animation and the summary guide have been awarded Plain English Crystal Mark accreditation.

We have also published a number of more detailed technical documents on the website, to provide greater detail and transparency to some of the information, terminology and assumptions used within the main reports.

This report, the "Annual Performance Report" (APR) is therefore one of six main documents published on our website:

Delivering our promises - a summary guide	• An overview of our annual performance in line with the five customer promises that underpins our business plan for the AMP6 period.
Annual Performance Report	• A comprehensive, detailed and assured account of our performance.
Outcome definition document	• Detailed technical information on the nature, calculations and assumptions underpinning each of our outcomes and performance commitments.
Upstream services methodology	• Methodology and commentary on significant movements in our upstream totex reporting.
Accounting seperation methodology	• An overview of the process used to prepare the upstream services tables in the APR.
YourVoice customer panel-reflections	• Independent reflections and feedback on UUW's performance during 2016/17.

Coverage of this report

We have retained the same overall structure for this report (our main 2016/17 Annual Performance Report) that we used in 2015/16 and have added an additional appendix to provide the detailed calculations that support the index based performance commitments.

Our 2016/17 Annual Performance Report contains the following sections:

Introduction	• Puts the document in context and helps the reader to navigate within the document.
Executive summary	• Sets out the key elements and conclusions of the report.
Risk and Compliance Statement	• Board confirmation that UUW has complied with its relevant obligations in 2016/17.
Annual performance	• Detailed commentary on our performance in 2016/17 relative to the price review assumptions.
Regulatory Accounts	• Detailed regulatory accounting data and information, including copies of Ofwat's annual pro forma data tables.
Appendix 1 Assurance summary and findings	• A summary of the assurance undertaken to support this report and the findings of this assurance.
Appendix 2 Outcome incentive calculations	•Providing the detailed calculations that support the index based performance commitments

Executive Summary

Introduction

Defining our targets and commitments for the 2015-2020 (AMP6) period

United Utilities Water Limited (UUW) is the appointed supplier of water and wastewater services to over three million homes and businesses in the North West of England. Every five years we work with customers and stakeholders to develop plans for the price, investment and service package for customers. These plans are scrutinised by the sectoral regulator, Ofwat. Our business plan for 2015-20 (AMP6) 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 which the company should deliver during the period. It specifies the levels of investment that the company is expected to make to deliver these service standards, the revenue that the company 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 FD.

Reporting our performance against AMP6 targets and commitments

This is our second Annual Performance Report of the 2015-20 period and covers the period from April 2016 to March 2017.

The report sets out our progress so far against our plans and targets for the AMP6 period. It highlights where we have outperformed these expectations and also describes where we have failed to meet the targets. Where we have not met our targets we have set out the actions that we are planning to take to improve performance.

This report is one of a number of documents on our website which are designed to provide clear and transparent reporting on the performance of UUW as well as United Utilities Group PLC (UUG).

Comparing our performance against our peers

The report allows some high level comparisons to be made of the relative performance between UUW and other water companies. However, as companies generally developed their performance measures independently, similar sounding measures can have very different definitions. To provide clarity on the definitions we have used, we have published detailed definitions, explanations and supporting information for our performance commitments on the UU website.

To try to allow a more meaningful comparison to be made, we have worked with regulators and the rest of the water industry to develop a suite of comparative information and performance measures. These measures are still subject to different interpretations between companies, but do provide a view of relative performance. This information is available on the Discoverwater website.

Ofwat has reviewed the information published in last year's APRs and as part of its financial monitoring framework published the report "Monitoring financial resilience report 2015-16". The report provides information on the relative performance and financial strength of the water and wastewater companies that Ofwat regulates. This report is available on the Ofwat website.

Overview of the year

Our business plan for the 2015 to 2020 period included ambitious plans to improve service. These targets were embedded in a series of outcomes and supporting performance commitments and required us to deliver substantial efficiencies in our wholesale totex expenditure and retail cost to serve. The FD set an even tougher challenge by requiring further improvements in performance against some of our performance commitments, greater efficiencies in totex and further savings in cost to serve.

We have worked hard since the FD and during the first two years of the AMP6 period have reviewed and re-evaluated our initial proposals to allow us to meet these challenges. We have successfully exploited innovation and made use of our "systems thinking" approach to deliver a radically different way of managing our business.

We are delighted to have retained our industry leading four star company status in the Environment Agency's 2016 environmental performance assessment.

We achieved our best ever customer satisfaction scores under Ofwat's Service Incentive Mechanism (SIM) and ended the year in an upper quartile position amongst our peers. We introduced a number of innovations to enhance our customer service. One of the most successful - Priority Services - provides dedicated support to customers with disabilities, experiencing personal challenges or in financial hardship.

We accelerated our investment programme to deliver the early benefit of operational efficiencies and provide better service to customers as measured through Outcome Delivery Incentive (ODI) measures. This approach has contributed to a net ODI reward in the year and improves the likely cumulative outcome over the five-year period.

The non-household retail market fully opened to competition on 1 April 2017. UUW ceased to act as a retailer to non-household customers and transferred responsibility for its non-household retail operations to Water Plus, a joint venture established between United Utilities PLC and Severn Trent PLC on the 28 May 2016. These customers are now able to switch retail suppliers, should they so choose.

We delivered a strong set of financial results for the year, supported by a robust capital structure and solid investment grade credit rating. This means that we have continued to deliver a strong performance for our customers, shareholders and the environment. We are confident that we can continue to outperform against our plan for 2015-2020 and have committed to £100 million of additional investment to support resilience projects bringing additional customer benefits both over the next three years and in the longer term.

The remainder of this executive summary provides further detail on:

- **Our customer service and operational performance** against the five promises, outcomes and performance commitments that formed the basis of our original PR14 business plan and the FD.
- **Our expenditure, revenues and financial metrics**, relative to the assumptions made in the FD, for the individual price controls and for UUW overall.

Annual Performance Report 2017

Executive summary

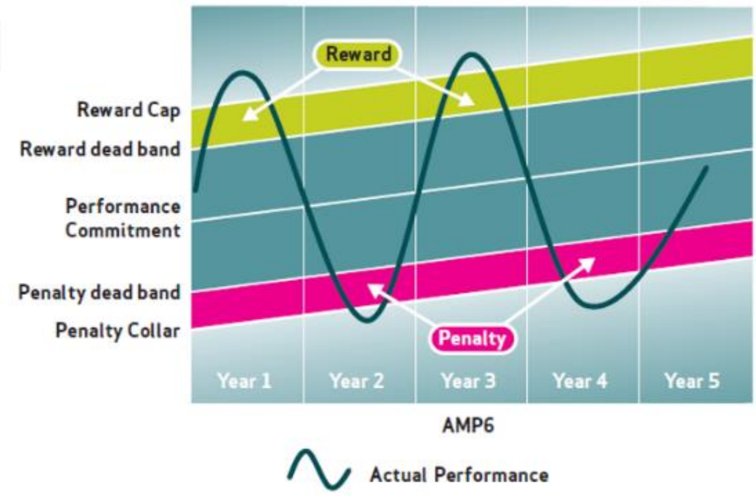
Our customer service and operational performance

Introduction

As part of the planning that we undertook 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, 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 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.



The majority of performance commitments carry a financial penalty if we underperform and for some of these we can also earn a financial reward if we outperform. There is a limit or ‘cap’ to the amount we can be rewarded for each measure 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) beyond a certain level before there is a financial impact. This is to ensure that rewards and penalties are applied where there is significant deviation from a target and not where the under or out-performance is attributable to natural or random variations only.

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 means we do not immediately incur a penalty 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 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 the final year. Any net penalty or reward over the five years is included as part of the PR19 process for setting customer bills for the 2020-25 period.

Overview of performance in the year

As a result of the challenge that we set ourselves in our business plan and then the further tightening of some of the targets by Ofwat as part of the FD, our assessment was that we would be unlikely to be able to meet all of these targets and would be more likely to earn a net penalty than a net reward over the five year period.

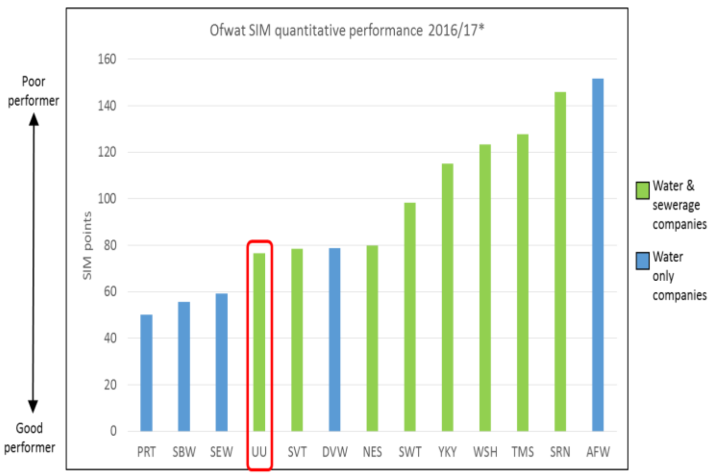
In 2016/17 we met or exceeded our targets for nineteen of our twenty six performance commitments and achieved a net £6.7 million reward. This reward together with the £2.5 million net reward achieved in 2015/16 has exceeded our initial expectations and has been delivered by a substantial acceleration and retargeting of our expenditure programmes, together with the benefits of our "systems thinking" approach to the way we operate.

Our main areas of reward came through our good performance in leakage, private sewers and pollution, with our main penalty areas being reliable water service, water quality service and sewer flooding.

A number of our ODI measures are, however, susceptible to one-off events and, on the whole, our ODI targets get tougher each year. Therefore, we would expect that even if our performance levels remain relatively high, we are likely to begin to incur net penalties rather than net rewards in the later years of the five year period. Our current view of the potential range of the cumulative net ODI incentive over the period ranges from plus £30 million to minus £50 million.

Our target for customer service as measured through the Service Incentive Mechanism (SIM) is to move towards the upper quartile in the medium-term. We are particularly pleased with our progress this year, which saw our overall SIM score increasing by 3 points from 82 to 85 and end the year as a leading company in our peer group.

There are two elements to the SIM score – a qualitative assessment and a quantitative assessment. In the qualitative assessment we improved our score to 4.42 points out of 5, compared with 4.27 points in 2015/16. This puts us in joint 6th position for the year out of the 18 water companies, and joint 3rd position out of the 10 companies providing both water and wastewater services.



* Quantitative SIM for 2016/17 is based on a datashare of 13/18 water companies, using 12 month actuals

In the quantitative assessment, which measures customer contacts and complaints, we have made a step change in performance. Overall complaints in the year show a 28% improvement on 15/16 performance.

Relative performance can only be assessed in full when the other companies publish their respective results. However, of the 13 companies who share data on quantitative scores, this placed us in 4th position out of the 13 and 1st of the 8 water and wastewater companies in this data share.

Annual Performance Report 2017

Executive summary

2016/17 performance

Performance against our Outcomes during the first two years of the AMP6 period is set out below. Fuller details are set out in Section 1 Outcome delivery.

Operational Performance Summary (2016/17)

Performance commitment	Actual Performance 2015/16	Actual Performance 2016/17	Commitment 2016/17	Pass / Fail	2016/17 Incentives Impact	2016/17 Incentives Value
We promise to provide you with great water						
Drinking Water Safety Plan risk score	4.3	4.3	<= 4.3	Pass	Reputational	
Water quality events DWI category 3 or above	35	22	<= 11	Fail	Penalty	(£0.596m)
Water Quality Service Index	120.5	116.9	>= 130.3	Fail	Penalty	(£3.619m)
Average minutes supply lost per property (a year)	16:42	13:33	<= 14:00	Pass	Deadband	
Reliable water service index	16.4	77.8	>= 100	Fail	Penalty	(£7.974m)
Security of supply index (SoSI)	100	100	= 100	Pass	At target	
Total leakage at or below target	10.8	23.4	>= 0	Pass	Reward	£9.148m
Resilience of impounding reservoirs	161.6	164.3	>= 163.21	Pass	No reward	
Thirlmere transfer into West Cumbria (see note 1)	2	5	>= 5	On track	At target	
We promise to dispose of your wastewater						
Private sewers service index	91.69	91.90	<= 100	Pass	Reward	£7.350m
Wastewater network performance index	90.95	89.47	<= 103.2	Pass	At target	
Future flood risk	16,472	16,418	<= 16,436	Pass	Reputational	
Sewer flooding index	100.8	94.4	<= 83.9	Fail	Penalty	(£1.484m)
We promise to give you value for money						
Number of free water meters installed	27,197	32,447	>= 59,325	Fail	Reputational	
Customers saying that we offer value for money	50	52	>= 50	Pass	Reputational	
Per household consumption	303	305	<= 292	Fail	Reputational	
We promise to deliver customer service you can rely on						
Service incentive mechanism (SIM) (see note 2)	82	85	UQWASC	TBC	TBC	TBC
Customer Experience Programme (see note 1)	0.001	0.363	>= 3.37	On track	Deadband	
Delivering our commitments to developers	95%	97.5%	>= 92%	Pass	Reputational	
We promise to protect and enhance the environment						
Contribution to rivers improved – water (Km)	36.84	82.55	>= 6.6km	Pass	Reward	£0.185m
Contribution to bathing waters improved	0.47	0.66	>= 0.66	Pass	No reward	
Protecting rivers from deterioration due to growth	48.0	48.0	>= 1.8	Pass	No reward	
Maintaining our wastewater treatment works	91.48	58.71	<= 83	Pass	No reward	
Contribution to rivers improved wastewater (Km)	0.75	45.62	>= 15.41km	Pass	Reward	£0.431m
Wastewater (category 1 & 2) pollution incidents	4	2	<= 4	Pass	No reward	
Wastewater category 3 pollution incidents	136	150	<= 201	Pass	Reward	£3.278m
Satisfactory sludge disposal	100.00	100.00	<= 100	Pass	At target	
Totals						
Total incentive position (see note 3)						**£6.719m**

[1] The penalty or reward for these measures is based upon the performance at the end of the five year period only. The annual performance assesses whether we are on track to achieve this target.
[2] Upper quartile for water and sewerage companies.
[3] Although a total incentive position is provided in the table, actual penalties or rewards are determined individually for each price control.

Providing you with great water

Outcomes:	Performance:
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 Net penalty of £3.041m (water)

What do 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?

Over recent years our leakage performance has been relatively stable and we have met or marginally outperformed our target. For 2016/17 we improved on this and achieved our best ever leakage performance earning a reward against this measure. We also outperformed our related target for average minutes supply lost per property. This improvement is a direct result of the greater central control that our Integrated Control Centre has provided which allows us to remotely monitor and manage the pressure in our network and to increasingly detect and resolve any issues before any customer impact occurs.

We continued to supply a very high level of water quality, and delivered our best ever performance against the Drinking Water Inspectorate quality metrics. Our water quality service index includes the number of customer contacts we receive relating to water quality and although the number of contacts remains well below our historic levels, there has been an increase in contacts since 2015/16, mainly relating to discolouration events. This increase, coupled with a tougher target for the year, resulted in a penalty for the measure.

We did not meet our target for water quality events affecting our assets. This is despite the significant improvement that has been delivered since 2015/16 as a consequence of a substantial programme of improvements in training, processes, asset standards and detection capabilities. This will continue to be an area of focus for us in the coming year.

As reported in our 2015/16 APR, a number of incidents occurred during the year. We have learnt lessons and taken action as a result of these incidents. We have made substantial investment in our assets, including installing permanent UV treatment at some of our major water treatment works and continuing to make improvements to our incident management processes.

We continued to make good progress on the longer term security of our supplies, achieving 100% compliance against the index measure for security of supply. We are making good progress on the 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 obtained planning permission and awarded the contract for the work during the year and although we are still at an early stage of the programme, we will be seeking to accelerate delivery of the work if possible. More details of our work in West Cumbria can be found on our website.

Disposing of your wastewater

Outcomes:	**Performance:**
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 Net reward of £5.866m (wastewater)

What do customers want?

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?

The overall performance of the sewerage network, in terms of the numbers of blockages, collapses and equipment failures has been improving over recent years, with a further year on year improvement in the sewer network index score in 2016/17. Our recent investments in improved resilience and the use of our Integrated Control Centre has allowed us to continue to improve the effectiveness of our investment in the sewer network and to be able to respond more effectively to incidents when they do occur.

The primary focus within this promise relates to sewer flooding. Flooding is directly impacted by a number of factors, some of which are outside of direct company control, most notably rainfall. In our business plan 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 industry wide upper quartile targets which become increasingly tough throughout the period.

In line with the improvement we have achieved in the sewer network index score, the number of flooding incidents has shown a year on year improvement. Despite this we have not achieved the performance commitment target for the year and will incur a financial penalty.

We recognise this is a priority area for customers and we have been targeting schemes that are designed to reduce the risk of flooding of customers' homes and in areas that are more likely to experience flooding. We are undertaking an extensive sewer cleaning programme along with a comprehensive drainage area programme to help us continue to improve our performance.

The target will, however, continue to be a challenge, given the nature of our sewerage system and the level of rainfall in the North West. We will continue to review our operational and investment decisions on a regular basis to help reach the optimal position against this measure.

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 do spend more than if we managed these assets in a purely reactive way, but it has the benefit of a better level of performance. As a result of this approach and the acceleration of investment in this area, we have again outperformed our performance commitment target and earned a reward.

Giving you value for money

Outcomes:	Performance:
a) Bills for you and future customers are fair	One out of three measures achieved All reputational

What do 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 believe 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. This year we've achieved our target for customers saying we offer value for money, but there is still more we can do. We recognise that 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.

We continue to be committed to helping those customers who are struggling to pay to help them get back on track. During the year we introduced our "Town Action Planning" initiative which engages with customers in our most deprived areas and has significantly increased the number of customers taking advantage of our financial assistance schemes. To date 75% of customers that have moved onto a payment plan under this initiative remain on it, with the initiative resulted in us being given the award for "Excellence in Treating Customer Vulnerability" at the Credit Awards', a multi sector awards scheme which compared our approach against initiates in other industries.

We've not achieved our targeted reduction in household consumption of water, or number of free meters installed, although we have continued to promote water efficiency and meters where appropriate for customers throughout the year. We have done this 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 are aware that we cannot deliver environmental and social challenges on our own. 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. Natural Course, a project looking at building capacity to protect and improve the region's water environment, is benefitting from involvement from local authorities, regulators and Rivers Trusts. For every pound we contribute, a further four comes from our partners.

Partnerships are offering a great way of connecting communities with issues. Our Love My Beach partnership, with Keep Britain Tidy and the Environment Agency, continues to grow with nearly 600 volunteers – including over 200 of our own employees – dedicating over 8,800 hours to cleaning beaches, removing 6,500 bags of litter from beaches and estuaries.

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Delivering customer service you can rely on

Outcomes:	Performance:
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. The position on SIM is dependent upon the performance of other companies.

What do customers want?

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?

Customer service sits at the core of everything we do. Our strong focus on customer service has driven substantial improvements in recent years, becoming the most improved company for performance against Ofwat's Service Incentive Mechanism (SIM) in the 2010-15 period with a reduction of around 75% in the overall number of customer complaints.

In AMP6 we are targeting a move towards upper quartile performance in SIM which measures both the number and the quality of customer contacts. This year we have re-energised our approach and as a result have seen further improvements in customer satisfaction.

In 2016/17 we delivered our best ever scores under Ofwat's qualitative Service Incentive Mechanism (SIM) measure, placing us above the industry average for the full year, and ending the year as a leading company in the sector. Customer complaints in 2016/17 were also considerably lower than last year with a 27% year on year reduction and a 55% reduction in the complaints where an issue was not resolved at first contact.

To support our drive for continuing improvements, we included a technology-led Customer Experience Programme in our business plan supported by a specific performance commitment to monitor its delivery. We have now carried out the detailed design phase of this programme, agreed the software technology and appointed a solution integrator.

This work has resulted in a change in approach and timescales, which is designed to ensure that the new technology is delivered in a seamless way with no customer impact. As part of this programme in 2016/17 we refreshed all our telephony lines with a new tone of voice, launched our new customer website; implemented a new web chat capability and implemented a new Automated Payments system.

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. Our detailed performance in this areas can be seen on our website. https://www.unitedutilities.com/services/builders-developers/

The year has seen the opening of the non-household retail market to competition allowing business customers the choice over who provides them with services such as billing, meter reading and customer services. If you are a business customer and want to know more, go to http://www.open-water.org.uk/.

Protecting and enhancing the environment

Outcomes:	Performance:
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	We have achieved eight out of eight measures. Reward of £0.185m (water) and £3.709m (wastewater)

What do 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?

We are delighted that UUW is one of only two companies to have retained industry leading four star company status in the Environment Agency's 2016 environmental performance assessment, despite the tightening of standards for this year. Further details are provided on the Environment Agency website.

We significantly improved the level of compliance and reduced the level of risk at our wastewater treatment works in 2016/17. This improvement is the result of the acceleration of our expenditure programmes coupled with the benefits of the additional automation and control that we installed to provide enhanced on-site or remote monitoring and management of key assets within our treatment works. The improved performance has allowed us to outperform the target for the maintaining of our wastewater treatment works performance commitment although, as this is a penalty only measure, we will not achieve a reward.

During the year we agreed some revisions to the substantial programme of environmental improvements required to be delivered in the period, with these changes being designed to provide an equivalent benefit for an equivalent cost. We continued to make good progress on the delivery of this programme of work and successfully delivered all of our 2016/17, bathing water improvement schemes on time.

We delivered all of the water and wastewater rivers improved schemes that were required in 2016/17, with three additional wastewater schemes being delivered ahead of schedule. We abstracted less water from rivers which are covered by the abstraction incentive mechanism (AIM) than historical average levels and earned a reward against this measure. We are at target for Ofwat's industry standard AIM measure, which was developed during the current year.

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.

Our expenditure, revenues and financial performance

Introduction

The PR14 price review process was structured around four separate price controls. Specific assumptions were made on revenues, costs and returns for our wholesale (water and wastewater) and retail (household and non-household) services. The PR14 price review also looked at overall UUW financeability and anticipated returns.

This section of the executive summary reviews performance against the wholesale and retail price controls and overall UUW wide financial performance.

Wholesale

Overview of the wholesale price controls

The wholesale price controls defined assumed levels of total expenditure (totex) for the water and wastewater price controls and used these assumptions as well as “pay as you go (PAYG) ratios” and “RCV run-off rates” to derive the assumed value of the closing regulatory capital value (RCV) for each price control. Together these determine the amount of revenue that can be recovered by the company for each year of the AMP6 period to finance existing and ongoing investment and costs.

The determination defined the incentive regimes that are in place to reflect changes between allowed totex levels and actual totex levels, with the totex incentive regime designed to work together with the outcome delivery incentives, to drive improvements in performance and efficiency.

Totex incentivisation

The totex investment regime takes a holistic view of capital and operating expenditure (capex and opex) to generate a total expenditure level (totex). The PR14 process defined an allowed level of totex for the water and wastewater wholesale businesses.

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

The impact of any net variance will be assessed as part of the PR19 price review process which concludes in 2020 and will then be reflected in customer bills during subsequent periods.

Interaction of operational and financial incentives

The totex incentive regime is designed to work alongside the outcome delivery incentive regime to ensure that companies are incentivised to achieve efficiencies and innovation in their programmes and to deliver programmes of work which strike the right balance between expenditure and performance.

2016/17 financial performance – Wholesale

Our performance against the key wholesale expenditure measures set out in the FD is shown in the table below.

Wholesale expenditure for the first two years of the AMP6 period (12/13 prices)

Measure	Cumulative spend April 2015 to March 2017		
	Ofwat FD assumption	Actual	Variance
Wholesale totex (Water)	£918m	£1,012m	+£94m
Wholesale totex (Wastewater)	£1,128m	£1,305m	+£177m
Shadow RCV (March 2017)	£10,565m	£10,719m	+£154m

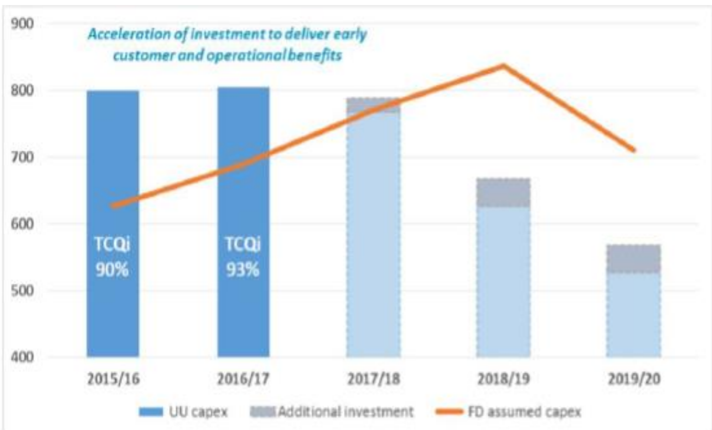
Information from APR Table 4B and 4C

Total expenditure levels in both 2015/16 and 2016/17 have been significantly higher than assumed within the PR14 FD.

The reported water service increase is £94 million and the reported increase in wastewater is £177 million (in 2012/13 prices). However, since the FD was published Ofwat has provided revised guidance (RAG 2.06) 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 £64 million of totex being recorded in the wastewater service which would previously have been accounted for in the water service.

Therefore, on a more like-for-like basis the increase in totex spend in 2016/17 relative to the FD would be £158 million in water and £113 million 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 sustainable efficiency savings.

Wholesale expenditure acceleration



NB The UU investment programme shown in this chart does not constitute a forecast

Despite this increase in expenditure in the first two years of the five year period, our current plans indicate that we should be able to deliver our programmes of work for approximately the level of expenditure assumed within the FD.

As a consequence of overall regulatory outperformance, we have also committed to investing in an additional £100 million programme of resilience work to provide additional customer benefits both over the next three years and in the longer term.

Retail

Overview of the retail price controls and incentives

The retail price controls determined the cost per customer and margin that could be recovered for providing retail services. Total revenue levels for the company will therefore vary depending on actual customer numbers.

There is no cost sharing mechanism for retail costs. Any variations in costs compared to the allowed level of costs impact company returns – not customer bills – in the period.

2016/17 performance – household retail

Our household retail performance in 2016/17 against the allowed cost to serve and assumed revenue set out in the FD is shown in the table below.

Household retail expenditure in 2016/17 **(out turn prices)**

Measure	Ofwat FD assumption	FY17 Actual	Variance
Retail revenue including margin	£127.6m	£122.1m	-£5.5m
Cost to serve excluding margin	£115.4m	£114.5m	-£0.9m

Information from APR Tables 2C and 2A

Household retail operating costs in 2016/17 were £5.8 million lower than in 2015/16 (£120.3 million) and were broadly in line with the assumptions made in the FD. This reduction in our cost to serve has demonstrated the benefits that are being delivered through our customer experience programme. Our allowed cost to serve, will not increase in line with inflation and will continue to reduce during the period, which will require us to continue to deliver further efficiency in our operations.

Our bad debt costs have benefitted from the positive impact of the introduction and uptake of billing and collections initiatives, including the successful rollout of our Town Action Planning initiative which engages with customers in our most deprived areas and has significantly increased the number of customers benefiting from our financial assistance schemes. This initiative recently resulted in us being given the award for "Excellence in Treating Customer Vulnerability" at the Credit Awards'. This is a cross sectoral awards scheme which benchmarked our approach against initiatives in other industries, beyond the water sector.

Household bad debt has reduced to its lowest ever level of 2.5 per cent of regulated revenue, down from 3.0 per cent last year. Although our performance this year has been encouraging, bad debt will remain a challenge given the high levels of deprivation in the UUW region and will be an area of continued focus as we drive for further improvement.

Actual customer numbers were 25,683 higher than in 2015/16, mainly due to property classification changes made in readiness for non-household retail competition. Although mainly as a consequence of the increased take up of our social and support tariffs, retail revenues are lower than assumed in price limits. Despite this reduction, household retail revenues (excluding internal recharges) exceeded operating costs by approximately £7.6 million.

2016/17 performance – Non-household retail

During the year United Utilities Water Limited (UUW) completed its preparations for the opening of the non-household retail market to competition. On 1 April 2017 UUW formally exited the non-household retail market.

As part of this process, responsibility for UUW’s non-household retail operations had previously passed to Water Plus – a joint venture between United Utilities PLC and Severn Trent PLC - on 1 June 2016.

Between 1 June 2016 and 31 March 2017 UUW continued to be accountable for delivery of its licence obligations to non-household customers before exiting the market on 1 April 2017. The principal means of discharging this accountability was through the operation of Water Plus.

The non-household values reported within our APR and regulatory accounts represent operations in April and May 2016 only, before the transfer to Water Plus.

The activities carried out by Water Plus from 1 June 2016 to 31 March 2017, are set out in a separate regulatory report and data tables produced by Water Plus and audited by Grant Thornton.

This report and tables are published on our website, along with a suite of combined tables showing the combination of the first two months of data, published within this APR and the final ten months of data published within the Water Plus report.

A small number of non-household activities - such as developer services administration costs - remained with UUW throughout 2016/17 and will continue to remain with UUW in 2017/18 and beyond. The revenues and costs associated with these activities are included within these regulatory accounts and will continue to be reported within the non-household price control within the future UUW regulatory accounts.

Non-household retail expenditure and revenues 2016/17 (2 months only - out turn prices)

Measure	Ofwat FD assumption	FY17 Actual	Variance
Retail revenue including net margin	£6.1m	£6.2m	+£0.1m

Ofwat FD values prorated down from published annual figures, actual information from APR Tables 2C

Non-household revenues for the two months were broadly in line with FD assumptions, although operating costs, at £8.5 million were higher than originally assumed. This increase in costs was mainly due to one-off costs in preparation for market opening.

UUW overall financial performance

Overview of the PR14 determination

Ofwat developed the PR14 FDs for all companies based upon a notional capital structure (rather than being based upon actual individual company specific capital structures). It applied a common weighted average cost of capital for all (non-enhanced) companies of 3.60% to determine wholesale revenue allowances. Margins of 1% and 2.5% were applied to the household retail and non-household retail price controls respectively.

To demonstrate that the plan was financeable, the anticipated performance against a key suite of equity and debt financial indicators was set out within each company's determination.

In addition, Ofwat set out the assumed notional base case return against the company's regulatory equity (RORE). For UUW this value was 5.63%.

The overall determination and incentive package was therefore positioned to be sufficiently broad and challenging that companies needed 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.

2016/17 performance – UUW financial performance

Overall, we have been able to publish a good set of results especially in the context of the tough AMP6 price controls. We have seen higher Retail Price Index (RPI) inflation which has increased both revenues and our index-linked financing charge for the year, although we continue to maintain a strong balance sheet and solid credit ratings.

We have already raised over two thirds of our £2.5 billion financing requirements for the five-year regulatory period and as part of this, we were the first UK utility to issue Consumer Price Index (CPI) linked debt in anticipation of Ofwat's proposed transition away from calibration of price controls to the RPI measure of inflation.

We have locked in a low cost of debt for 2015-2020, with an appropriate mix of index-linked and nominal debt; and our hedging policy means we are well placed to manage future financing costs. We have a liquidity position providing headroom to cover our projected financing needs through into 2019 and have published a five year, long term viability statement.

We have a responsible and sustainable dividend policy, with dividends growing at least in line with RPI.

The following pages of this executive summary cover our financial performance in terms of our income statement, our financial position and then against a suite of key financial metrics. It then looks at the overall impact of this performance upon return as assessed through return on regulatory equity (RORE).

Additional detail is provided within Section 2: Regulatory Accounts.

Income statement

Our income statements for the years ending 31 March 2016 and 31 March 2017 are summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory Accounts.

Financial measures for the years ending 31 March 2016 and 2017

Financial Measure	2015/16	2016/17
Revenue	1,706.5	1,689.2
Operating profit	569.9	580.3
Profit before tax	323.1	382.1
Profit after tax	365.3	364.3
Equity dividends paid	180.4	242.7

Information from APR Tables 1A

In 2016/17, revenue remained at approximately £1.7 billion, and was down £17 million from 2015/16. This reduction in revenue reflects the transfer of the non-household retail business to the Water Plus joint venture on 1 June 2016, with this reduction in revenue being partially offset by an increase in the allowed regulatory revenue for the wholesale price controls.

Operating profit of £580 million was up £10 million from 2015/16 as the £17 million reduction in revenue was more than offset by a £27 million reduction in operating costs. The year-on-year reduction in operating costs was primarily due to the sale of the non-household retail business to Water Plus, one off costs in 2015/16 associated with the Lancashire water quality incident and an improvement in our household retail bad debt charge. These reductions in operating cost were partly offset by a reclassification of grants and contributions income, which has been reclassified as other income in 2016/17 following a change to the RAGs.

Profit before tax was up £59 million reflecting a £10 million increase in operating profit, a £27 million increase in other income and a £46 million fair value movement on financial instruments from a £41 million charge in 2015/16 to a £5 million gain in 2016/17. These movements were partly offset by a £25 million increase in underlying finance expense as a result of higher RPI inflation.

Reported profit after tax of £364 million was broadly consistent with the 2015/16 value of £365 million as the increase in profit before tax was offset by a higher deferred tax credit in 2015/16 relating to the Government's future planned tax rate changes.

Equity dividends paid in the year increased from 2015/16. £18.4 million of this increase was associated with a dividend from UUW to its immediate parent United Utilities North West Limited in respect of the transfer of the non-household business. This dividend represents the value of the assets transferred. The remaining dividend was in line with existing dividend policy and is made up of £188 million base return (5% of the equity portion of the Regulatory Capital Value), plus £35 million of distributed outperformance.

Financial position

Our financial position for the years ending 31 March 2016 and 31 March 2017 are summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory Accounts.

Financial position for the years ending 31 March 2016 and 2017

	2015/16	2016/17
Total assets (£m)	11,574	11,919
Total liabilities (£m)	9,368	9,647
Net asset value and total equity (£m)	2,206	2,272
Increase (decrease) in net cash (£m)	17.0	(2.9)
Net Debt (£m)	6,386	6,492
“Shadow” Regulatory Capital Value (£m)	10,302	10,719
Gearing (%)	62.5	61.4

Information from APR Tables 1C, 1D and 1E

The value of our total assets (Table 1C) increased by £345 million in the year, with reported net debt (Table 1E) also up by £106 million. The reported net debt in Table 1E excludes preference share capital of £130 million in 2016/17. Adjusting for this our net debt would increase by £236 million (see Section 2.7). The increase to current assets and net debt are mainly the result of the significant expenditure on our capital programme. Net asset value and total equity increased by £67 million.

The regulatory capital value increased by £417 million as a consequence of the impact of RPI inflation on the measure, together with the size and the acceleration in our investment programme. Overall there was a slight decrease in net cash for the year.

For the AMP5 period, our gearing had remained relatively stable at around 60 per cent, with growth in net debt largely being offset by a commensurate growth in the RCV. In the first two years of the AMP6 period, our gearing has nudged up slightly reflecting the impact of the acceleration of our investment programme. As at 31 March 2017, our gearing was 61.4 per cent, which remains slightly below the nominal gearing level of 62.5% assumed by Ofwat in setting the PR14 FD.

The acceleration of our investment programme has a short-term impact on gearing and we would therefore expect our gearing to return closer to historical levels in the later years of the AMP as the investment programme reduces. Any future increases in RPI will positively impact the inflationary growth in the RCV and also contribute to a reduction in gearing.

Financial metrics

Our performance against the key financial measures set out in the FD for the year ending 31 March 2017 are summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory Accounts.

Financial metrics for the 12 months ending 31 March 2017

Financial ratios	Notes	Ofwat FD assumption	FY17 actual
Cash interest cover ratio (ICR)	1	3.28	5.61
Adjusted cash interest cover ratio (ACICR)	1	1.65	2.80
Funds from operations (FFO)/debt	1	10.25%	11%
Regulatory gearing (net debt/RCV)	1	59.83%	61.44%
Dividend cover (profit after tax/dividends paid)	1	1.39	1.50

Information from PR14 Final Determination company specific appendix – United Utilities and APR Table 4H

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.

The interest cover ratios illustrate a company's ability to pay interest on its outstanding debt. The cash interest cover looks at the ratio of funds from operations (FFO) before the payment of interest, to cash interest payable. The adjusted cash interest cover adjusts the numerator by subtracting regulatory depreciation which is an approximation of the capital cost that would be incurred if companies were to maintain the RCV at the same level.

The FFO/Debt ratio is calculated by taking the net cash generated from operating activities, adjusting for changes in working capital and dividing by net debt. This ratio is often used by credit rating agencies to look at the ability of companies to repay their debt and to fund their capital expenditure requirements. It should however, be noted that each credit rating agency has their own approach to the calculation of these ratios which may differ slightly from the calculations shown here.

The debt to RCV gearing ratio measures the proportion of debt in a company's capital structure relative to its regulatory capital value. This ratio is often used by credit rating agencies to assess a company's level of leverage and capital strength.

Dividend cover shows the number of times the dividend can be paid from the distributable profits earned in each year.

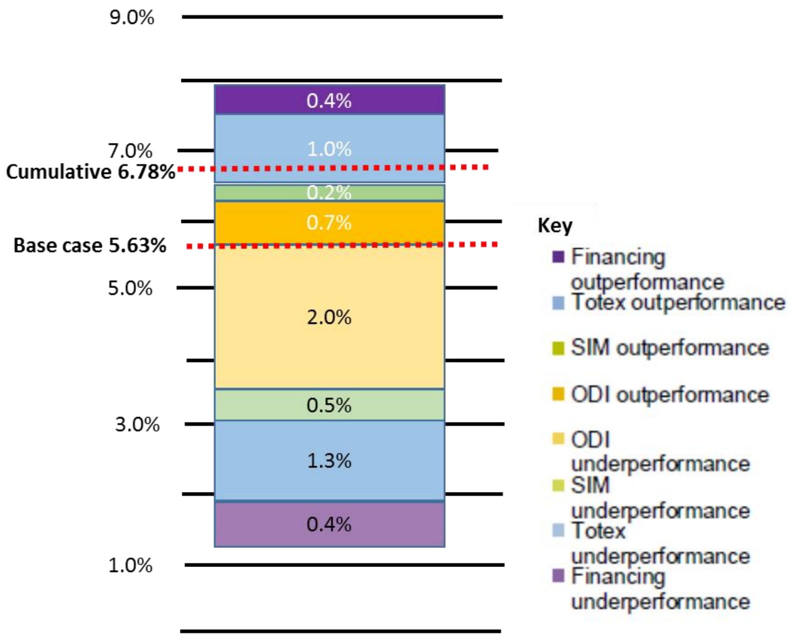
The 2016/17 value of these metrics reflects the good set of results that we have been able to publish and support a solid A3 credit rating (as measured by Moody's Investor Services).

Return on Regulatory Equity (RORE)

The UUW FD set out the theoretical range of returns that UUW could expect to earn dependent on its actual performance in the period, with this return being expressed as a return on the regulated equity of the business (RORE).

The RORE value reported in our APR is designed to measure the returns (after tax and interest) that a company has earned by reference to the notional regulated equity, where regulatory equity is calculated from the RCV and notional net debt (62.5% of RCV). Our RORE in the first two years of the AMP6 period is described over the page.

The notional base case RORE that was assumed in the FD was 5.63% and was assumed to be able to vary between 1.4% and 7.9%, depending upon actual performance in the period.



The position reported in our 2015/16 APR was 6.85%. Following addition guidance from Ofwat, this has now been restated to 6.30%. Overall RORE for 2016/17 was 7.26%, resulting in a cumulative RORE for the first two years of AMP6 of 6.78%.

Although this value is within the "expected range" published by Ofwat and exceeds the assumed base case, comparisons between these two values needs to be made with care. The assumed return within the FD is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt, whereas the actual values reflect the UUW actual company-specific position. This means that the numbers are not directly comparable.

The impact of our operational and financial performance on the key factors that are used to determine RORE is set out below.

Wholesale totex and retail operating costs: Although we have incurred significantly more wholesale totex than assumed in the first two years of the AMP6 period, the majority of the increased expenditure has been the acceleration of expenditure as opposed to additional spend and as such we are assuming that it has no overall impact on return over the five years.

We have committed to invest an additional £100 million in the AMP6 period to improve our operational resilience. While this additional expenditure will impact the PR19 totex assessment, it does not reflect any genuine out or underperformance relating to the PR14 scope of work. As such, we have not reflected the impact of this additional investment within the 2016/17 RORE value presented in our APR, which consequently shows the gross level of regulatory outperformance prior to this additional investment.

The base case RORE figure assumed that non-household retail margin would be earned for the full 12 months, removing the margin for the ten months following transfer to Water Plus and accounting for the slightly lower household retail costs and higher non-household retail costs reduces the 2016/17 base case RORE by 0.1%.

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 and have to be funded by the business.

Outcome delivery incentives – In 2015/16 we earned a net reward of £2.5m. In 2016/17 the net reward was £6.7m producing a positive uplift to the 2016/17 base case RORE of 0.2% or 0.15% on a cumulative basis. These figures only represent the first two years of performance, whereas actual rewards or penalties are calculated at price control level at the end of the AMP.

SIM – Is a measure of relative intercompany performance. We believe we have performed well on SIM during 2016/17, although the 2015/16 position was affected by incidents in water services and extreme flooding events. As such we have not assumed any penalty or reward on the SIM measure in the 2016/17 or current cumulative positions.

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 with the actual performance calculated based on actual, company specific, figures.

Risk and compliance statement

UUW Board's Risk and Compliance Statement 2016/17

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 2016/17. 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 a full understanding of and has complied with its statutory, licence and regulatory obligations in all material respects in 2016/17.
- Has taken appropriate steps to understand and meet customer expectations.
- Has sufficient processes and internal systems of control to fully meet its obligations.
- Has appropriate systems and processes in place to identify, manage and review its risks.

Departures from this statement are set out in a table following 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, household 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 2016/17.

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 2016/17, the results of the annual management control self-assessment, the work of Corporate Audit and a review of the company's risk and issues process and 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. Operational performance data is collected at month 6, month 9 and at 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 reporting 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.

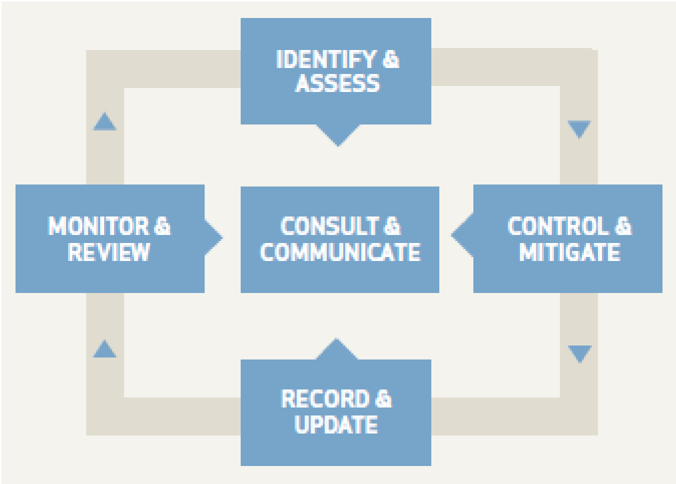
Where material issues are identified and/or the Board considers it is unable to support the expectations of the Statement then exceptions are set out in a table at the end of this statement.

Risk Management

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

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



The risk profile currently illustrates circa 120 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 periods, but has enhanced this by implementing a risk assessment process, specifically tailored to comply with the requirements of Ofwat's Company Monitoring Framework.

The 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.

This regulatory reporting risk assessment process has been described and consulted on during 2016/17, via two main publications, which are published on the UU website:

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

The higher risk targeted areas of our reporting, together with governance and assurance arrangements that will be used to support the development of this UUW Annual Performance Report were set out within the final assurance plan. Appendix 1 of the Annual Performance Report provides confirmation that this assurance plan has been implemented and sets 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 26 June 2016. The code can be found via the attached link.

Confirmation of sufficient financial and management resources (Licence 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 include 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. This certification statement can be found in Section 2.5 of our 2016/17 Annual Performance Report.

Confirming of availability of rights and assets (licence condition K)

The directors have issued a certificate as required by paragraph 3.1 of Licence Condition K, stating that as at 31 March 2017, 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. This certification statement can be found in Section 2.5 of our 2016/17 Annual Performance Report.

Trading with associates (licence condition F6)

Directors and senior managers of UUW have declared, to the best of their knowledge, that all appropriate transactions with associate companies have been disclosed and that UUW complies with the objectives and principles of Regulatory Accounting Guideline (RAG) 5.06. Information in respect of transactions between UUW and any other business or activity of the appointee or associated company is set out in Section 2.5 of our 2016/17 Annual Performance Report.

Links between directors pay and standards of performance (Water Industry Act section 35A)

As required by section 35A of the Water Industry Act 1991 UUW has published a statement of Directors' remuneration and standards of performance, which can be found in Section 2.5 of our Annual Performance Report. Included within this statement are details of the arrangements and the remuneration that have been paid or become due during 2016/17 to the directors of the company as a result of arrangements for linking the remuneration of the directors of the company to standards of performance in connection with the carrying out by the company of the functions of a relevant undertaker.

Maintaining investment grade credit rating (licence condition 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.

Outcome delivery

Performance against the outcomes and performance commitment targets, set out in the PR14 FD, 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 the customer challenge group YourVoice.

Full details of the 2016/17 performance against these outcomes along with a view of potential longer-term performance is included within Section 1.1 of our 2016/17 Annual Performance Report.

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.

Non-household retail – Market readiness

In 2016, Ofwat modified water companies' conditions of appointment to include a readiness condition ahead of the opening of the new retail market in England in April 2017. This obligation was successfully met, with two assurance letters being signed by the UUW Board during 2016/17 to demonstrate progress against our plan and then readiness to enter the market.

UUW exited the retail market to Water Plus on 1 April 2017. As part of this process on 1 June 2016 Water Plus became responsible for delivering retail services to UUW's business customers. UUW, however, remained accountable for its obligations to these customers up until retail exit on 1 April 2017. To provide assurance that these obligations continued to be complied with, a regulatory compliance oversight group was established. Water Plus has also provided a statement signed by its Board to confirm that it has complied with the relevant obligations and which sets out the basis of the governance and assurance processes that have been used to support their statement.

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Signed on behalf of the Board

Steve Mogford	Dr John McAdam
Chief Executive Officer	Chairman

2016/17 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:

Description of duty / obligation	Purpose of duty / obligations	Disclosure
Environmental Permitting (England and Wales) Regulations 2010	WwTW discharge permit compliance	Five Wastewater Treatment Works (WwTW) have been classified as failing their discharge permits in 2016/17, with 98.1% of works (measured by numeric permits assessed) complying with their discharge permits. This level of performance is an improvement on the ten works which failed their permits in 2015/16 and is in line with the 2016/17 target set for the performance commitment, "maintaining our wastewater treatment works".
Water Industry Act 1991 Water Supply Requirements	Duties of water undertakers with respect to water availability	As a result of the Habitats Directive the Environment Agency (EA) will revoke our abstraction licence from Ennerdale Water. 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 the West Cumbria 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. We remain on track to deliver these projects to the dates set out in Steve Mogford's letter.

3. 2016/17 performance

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

- The Regulatory Accounts which support much of the information used in Section 1 are set out in Section 2.
- The detailed pro forma tables that are specified by Ofwat and used by all water companies and which support this review are included within Section 2.3 and 2.6.
- Appendix 1 sets out the assurance that has been undertaken to support the information contained within the APR.
- Appendix 2 provides detail of the calculations used to support the index measures.
- Technical explanations and details of our outcomes and performance commitments are available in the document "Outcome definition documents" which is available on our website, via this link.

1.1) Outcome delivery

Overview of the supporting data tables (See section 2.6)

Pro forma Table 3A (see Section 2.6) sets out our performance against our 27 outcome performance commitments (PCs). For each PC table 3A sets out the actual 2016/17 performance and compares this to the 2016/17 performance target and to performance levels in previous years. Where relevant it also shows whether this performance would generate a financial reward or penalty and whether we are anticipating that we will achieve an overall penalty or reward over the full five-year period.

A number of our PCs are indices made up of a basket of sub-measures. Performance against each of these sub-measures is set out within APR Table 3B "sub-measure performance table". Details of the calculations used within these indices are set out in Appendix 2

APR Table 3C provides information on the four water abstraction sites in the UUW region which are subject to abstraction incentive impacts. The level of abstraction from these four sites is also assessed within our water service PC "C1 Contribution to rivers improved – water service".

Details of the build-up of our Service Incentive Mechanism (SIM) score are set out in APR Table 3D and are also discussed within the commentary to our retail and customer service PC "A-1: Service incentive mechanism (SIM)".

Overall approach to delivering our commitments

Our performance commitments and outcome delivery incentives (ODIs) represent a set of tough performance targets. To seek to manage this challenge we have continued to focus on and implement 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 two years of the five year regulatory period to deliver early operational benefit and mitigate potential penalties under our ODIs.

We believe that this approach is continuing to bring improvements in our underlying operational performance and are pleased that our performance has resulted in a net reward for the year. We do, however, recognise that there are measures where we have not met our targets and where this is the case we have set out our plans to improve our performance.

The 2016/17 performance against each performance commitment is described below. The summary for each performance commitment also provides an indicative view of the potential performance of the measure for the remaining years of the AMP6 period. However, it should be noted that the actual performance of these measures will be subject to a number of factors, many of which are outside our direct control.

1.1 a) Water Service performance commitments

2016/17 Annual performance summary

Performance against our water service outcomes in 2016/17 and the cumulative performance in the AMP6 period to date, is set out in the table below. Further information on the calculation of index scores and associated incentives can be found in Appendix 2.

Water Service Operational Performance Summary (2016/17)

Performance commitment	Actual		Performance Commitments		Incentive		
	2015/16	2016/17	2016/17	Pass / Fail	Impact	2016/17 Annual (£m)	2016/17 Cumulative (£m)
A1: Drinking Water Safety Plan risk score	4.3	4.3	<= 4.3	Pass	Reputational	N/A	N/A
A2: Water quality events DWI category 3 or above	35	22	<= 11	Fail	Penalty	(0.596)	(1.043)
A3: Water Quality Service Index	120.465	116.923	>= 130.3	Fail	Penalty	(3.619)	(3.392)
B1: Average minutes supply lost per property (a year)	16:42	13:33	<= 14:00	Pass	Deadband	0.000	0.000
B2: Reliable water service index	16.447	77.840	>= 100.0	Fail	Penalty	(7.974)	(15.948)
B3: Security of supply index (SoSI)	100.0	100.0	= 100.0	Pass	At target	0.000	0.000
B4: Total leakage at or below target	10.80	23.40	>= 0	Pass	Reward	9.148	9.148
B5: Resilience of impounding reservoirs	161.61	164.25	>= 163.2	Pass	No reward	0.000	0.000
B6: Thirlmere transfer into West Cumbria	2	5	>= 5	On track*	At target	N/A	N/A
C1: Contribution to rivers improved - water programme	36.84	82.55	>= 6.6km	Pass	Reward	0.185	0.633
D1: Delivering our commitments to developers, local and highway authorities	95.2%	97.5%	>= 92%	Pass	Reputational	N/A	N/A
E1: Number of free water meters installed	27,197	32,447	>= 59,325	Fail	Reputational	N/A	N/A
Water Service (net penalty)						**(2.856)**	**(10.995)**

*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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
4.3	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 FD 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 FD 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 2016/17 we have maintained the same level of risk as 2014/15 meaning that we have met the performance commitment for 2016/17. 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
27	35	**22**	<= 11	£0.596m (Pen)	£1.3m (Pen)

We have seen an improvement in performance for 2016/17 with a reduction in the number of events on the network and at Water Treatment Works (WTWs). The AMP6 targets are challenging and we have failed to meet the performance commitment this year due to the following reasons:

- The number of water quality events associated with customers receiving discoloured water following both planned and unplanned activities on the network.
- The number of category three events at water treatment works.
- Events caused by contractors working for third parties. Even though the contractors are not working for United Utilities and the events are outside our direct control, we have received either customer contacts or have had to provide advice to our customers. Therefore these events are still reportable to the DWI.

The performance commitment has not been met for 2016/17 resulting in a penalty of £0.596 million 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 £0.149 million 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. There has been an increase in the scale of our mains cleaning programme targeting water quality zones with the highest number of customer contacts.
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. Programme of work completed to assess critical control points on all WTWs and Service Reservoirs and installation of additional instrumentation and assessment of control philosophies.
v. Implementation of 24/7 manning at key water treatment works has been put in place.
vi. We have recruited additional Process Operators to take readings at set intervals from all unmanned sites to provide additional security for water quality compliance and process performance.
vii. We have continued development of algae management plans at all high risk WTWs to reduce the potential for algae to develop with the associated production of Geosmin and 2-Methylisoborneol. These compounds produce an earthy/musty taste which can be detected by customers.

Line 3 A3: Water Quality Service Index

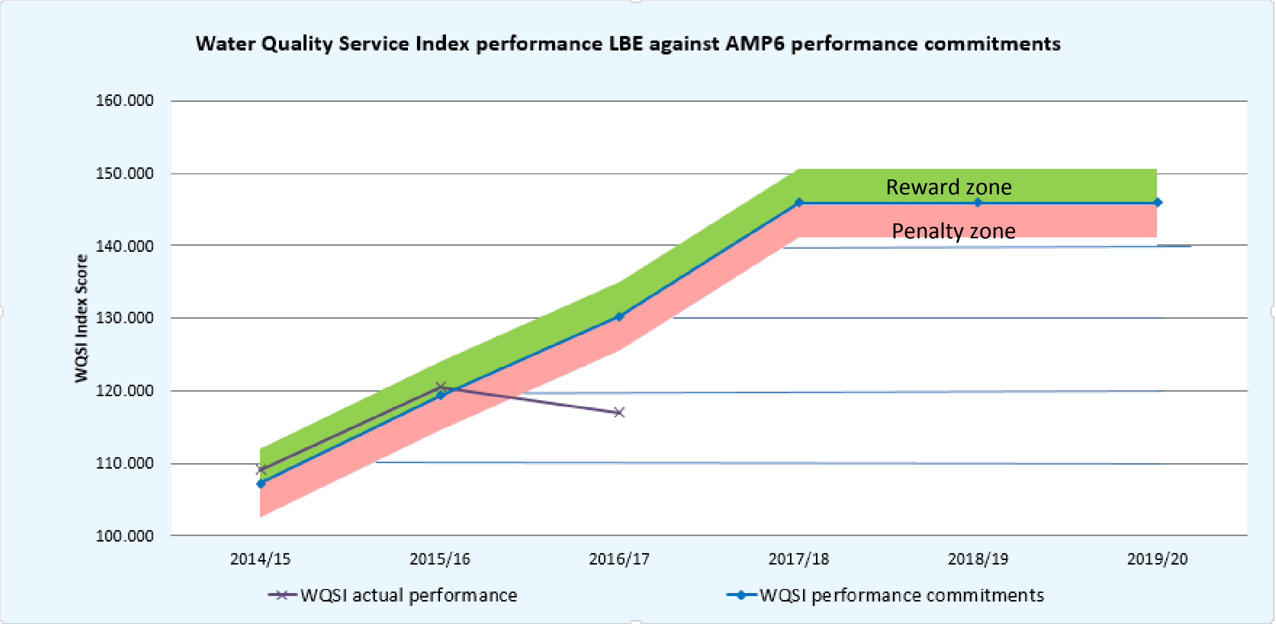
14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
109.112	120.465	**116.923**	>= 130.3	£3.169m (Pen)	£8.6m (Pen)

Water Quality Service Index sub-measures

Sub measure	Indicative Target 2016/17	Performance 2016/17
WTW coliform non-compliance	<= 0.04%	0.01%
SR integrity index	>= 99.96%	99.98%
Index WTW turbidity fails	<= 3 (number)	2 (number)
Index Mean zonal compliance	>= 99.96%	99.96%
Distribution maintenance index	>= 99.88%	99.85%
Contacts for water quality	<= 8,065 (number)	9,605 (number)

Performance for the index has slightly deteriorated this year and we have failed to meet the performance commitment target, resulting in a penalty of £3.169m.

Water quality service index



In order to calculate any penalty or reward the actual index score for the year is compared against the target index score. 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 £0.770 million per index point or the reward rate of £0.417 million per index point. Details of the calculation of this index measure as set out in Appendix 2

We have outperformed four of the six sub-measures however, we have missed the distribution maintenance index and number of water quality customer contacts target. The distribution maintenance index measures performance against turbidity, iron and manganese samples taken from our network. This year performance has declined compared with the last year finishing below the 2016 target. The decline in performance in 2016 was due to a failure in a small water supply zone which due to the way the metric is calculated has a significant impact on the overall index score.

Mains cleaning and large diameter mains cleaning projects are currently underway to reduce the risk of discolouration, turbidity, iron and manganese infringements. To further reduce the risk we have committed to undertake mains cleaning in an additional 53 water supply zones.

Overall there has been an improvement in the number of discoloured water events that are reported to DWI. There were 11 discoloured water events reported in 2015 compared to seven discoloured water events that occurred on the network in 2016. Discoloured water contacts that are attributed to DWI events are exempt from this measure, they are covered by DWI water quality events category 3 and above.

A significant element of this index score is from a reduction in customer contacts for water quality from the 2014/15 starting position to the 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
13:25	16:42	**13:33**	<= 14:00	0	0

Performance has improved compared to 2015/16 and the 2016/17 target has been outperformed. The measure has been impacted by a number of large events and by planned work that lasts longer than three hours. The number of properties impacted by planned interruptions has greatly increased from the previous year, due to an increase in mains cleaning, diversions and mains laying.

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 £5.184 million and the reward is £3.978 million per minutes lost per property.

2016/17 performance fell within the reward deadband and therefore no reward has been earned. Planned expenditure on regional pressure optimisation, strategic mains, strategic valves and crossings and replacement of ‘poor condition’ mains will help to drive a longer-term improvements in this measure. Increased knowledge of the network, and the facility to isolate and re-zone in the event of a burst, will lead to a reduction in mains burst events. Delivery of additional alternative supply vehicles and “DG3 response equipment” should also have an immediate impact on performance and help us to achieve the target as it continues to tighten throughout the period.

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

Line 5 B2: Reliable water service index (RWSI)

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
100.321	16.447	**77.840**	>= 100.000	£7.974m (Pen)	£15.948m (Pen)

Reliable water service index sub-measures

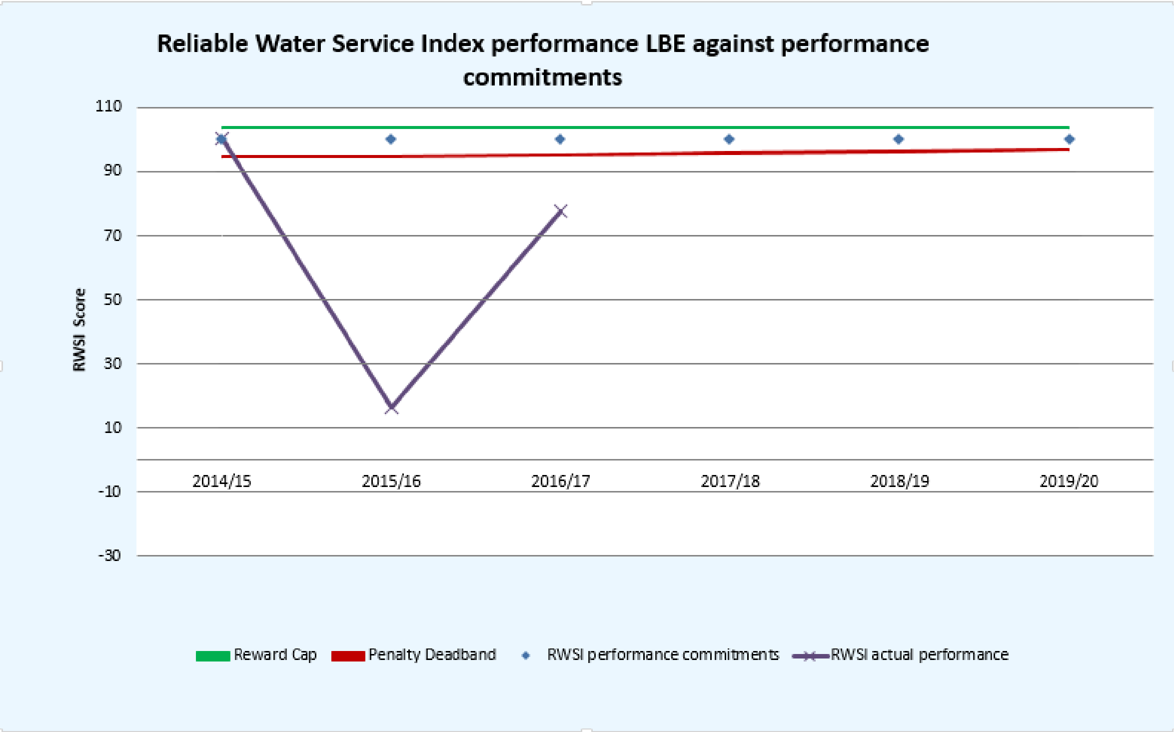
Sub measure	Indicative Target 2016/17	Performance 2016/17
Total bursts	<= 5,080	4,590
Interruptions > 12 hours	<= 730	3,759
Properties below reference level at end of year (DG2)	<= 272	345
Unwanted customer contacts for water availability	<= 48,000	43,740

In order to calculate any penalty or reward the annual index 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. The Reliable water service index (RWSI) incentive penalty rate is

£7.974 million and the reward is £5.970 million per index point. Details of the calculation of this index measure as set out in Appendix 2

We have not met our performance commitment for 2016/17 and a penalty of £7.974 million has been incurred.

Reliable water service index



We have outperformed the target for two of the four RWSI sub-measures and failed to meet the target for two. Mains bursts and water availability customer contacts performance have continued to improve and the targets have been outperformed again this year. The RWSI score target has not been achieved due to performance in the interruptions to supply greater than 12 hours sub-measure. This is largely due to a loss of supply event associated with a burst in the Accrington area in July 2016 that affected 2,498 properties for greater than 12 hours. This performance is reflective of the high sensitivity of this measure to large single events and is not representative of a deterioration in normal daily performance.

Low pressure performance has failed to meet the target with large numbers of properties being added to the low pressure register, predominantly due to better analysis and control of the process. Properties suffering low pressure for greater than four weeks are added to the low pressure register until it can be demonstrated that the property is receiving pressure at or above the standard. We will continue to evaluate all properties that remain on the low pressure register, and prioritise projected solutions accordingly. We expect performance next year to meet the poor pressure target.

Overall RWSI performance for 2016/17 (77.840) has seen an improvement on last year but it is still worse than the penalty cap (94.000) therefore the penalty is capped at the maximum penalty that can be incurred for the year, £7.974 million. Our view for the AMP overall is that we will not incur any further penalty against this measure, for the remainder of the AMP period. This reflects our underlying performance, excluding the impact of the significant events that have occurred in both of the first two years of the period. Any further major bursts would however, result in further penalties against this measure.

The following actions are in place to reduce the likelihood of supply losses, which should reduce 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
100.00	100.00	**100.00**	= 100.00	**0**	**0**

Security of supply index is a penalty only measure, in order to calculate any penalty the actual performance level is compared against the target performance level. If the performance falls within the penalty-zone then we multiply the resulting difference by the penalty incentive rate of £3.330 million per index point.

The performance commitment for 2016/17 has been met. 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 actions to reduce demand for water and has improved supply side assets that will increase water available for use.

Line 7 B4: Total leakage at or below target

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
9.1	10.8	**23.4**	>= 0.0	£9.148m (Rew)	£14.0m (Rew)

In order to calculate any penalty or reward the actual performance level is compared against the target performance level. 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 £1.458 million per Ml/day variance and the reward is £0.748 million per Ml/day variance.

In 2016/17 we achieved our best ever performance for leakage at 439.2 Ml/d. This was 23.4 Ml/d below our 2016/17 leakage target and earned a £9.148 million reward.

This improvement reflects the relatively mild winter, but is also a direct result of the greater central control that our Integrated Control Centre (ICC) has provided. The ICC allows us to remotely monitor and manage the pressure in our network and to increasingly detect and resolve any issues before any customer impact occurs. We have also utilised additional leakage detection teams and repair gangs and have accelerated our pressure management programme. We would expect to be able to continue to outperform in one or more of the remaining years of the period, although actual year-on year performance will be dependent upon a number of factors, some of which are outside our control, such as winter weather conditions.

Line 8 B5: Resilience of impounding reservoirs

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
152.21	161.61	**164.25**	>= 163.21	0	0

In order to calculate any penalty for this measure, 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 £0.250 million per risk unit.

There was a slight outperformance of the target in 2015/16 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. This measure involves a rolling score across the AMP, and therefore outperformance in one year will also benefit the subsequent years. The outperformance in 2015/16 has enabled continued outperformance in 2016/17. 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	2	**5**	>= 5	0	0

This performance commitment measures the progress of our major project to provide an additional water supply from Thirlmere reservoir to our West Cumbria supply zone. As the project will be completed in the AMP7 period, the PC tracks the earned value of the project with an end of AMP6 target of 82% delivery. Details of our plans for West Cumbria can be found on our website

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

The performance commitment for 2016/17 has been met with the delivery of two project milestones,

- 'Contract awarded'
- 'Planning application approved'

The delivery of these two milestones, brings the cumulative earned value of the project up to the performance target for the year of five percent. We are planning to deliver this project as soon as possible. The delivery date included in our 2015 water resources management plan was 31 March 2022. However, there may be an opportunity to deliver greater than the originally expected 82% completion of the project by 2020. Any acceleration of the project is however, dependent on the weather, any difficulties experienced with geotechnical tunnelling and any potential environmental or archaeological discoveries.

Given the nature of the construction risk it is, therefore, difficult to estimate at this relatively early stage in the project if a reward (or penalty) will be earned 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	36.84	**82.55**	>= 6.6	£0.185m (Rew)	£0.633m (Rew)

Contribution to rivers improved sub-measures

Sub measure	Target 2016/17	Performance 2016/17
Cumulative length of river improved by NEP (km)	6.6	45.71
Length of river improved by AIM (km)		36.84

In order to calculate any penalty or reward the actual performance level is compared against the target performance level. 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 £0.111 million and £0.028 million for the reward per km.

We have outperformed the performance commitments for 2016/17 resulting in a reward of £0.185 million 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 as set out below.

- In 2015/16 we delivered the NEP output (6UUWR0045 - Heltondale fish migration investigation), securing 0.01km of river improved in 2015/16, ahead of the 31 March 2017 output date.
- In 2016/17 we improved 45.71km of river through the delivery of the following NEP schemes.
    1. 6.55km from Swindale (6UUWR0031)
    2. 39.15km from seven sediment management plans (6UUWR0009/10/13/15/16/17/20/22/26)

  We also delivered the Thirlmere tributary investigation (6UUWR0042)
- The NEP km rivers improved is cumulative over the AMP; so the final 2016/17 position for the NEP sub measure is 45.71km.

Abstraction Incentive Mechanism (AIM)

In 2016/17 AIM was added as a specific pro forma table within the Annual Performance Report (Table 3C see Section 2.6). We had already adopted AIM through the PR14 process as part of the contribution to the rivers improved measure. Our measure is calculated differently from the new Ofwat measure, which was developed in consultation with the AIM taskforce of which UUW is a member.

Due to weather experienced in 2016/17 river flows did not drop below AIM thresholds, therefore there was no abstraction when the rivers were below the AIM threshold levels.

In Pro forma Table 3C, this results in scores for all four sites of zero. The methodology used within our performance commitment compares actual abstraction levels to average abstraction levels. As actual abstraction levels were lower than average we have achieved the maximum km of river improved for the AIM part of this measure of 36.84km.

The length of river improved by the AIM sub measure is combined with the cumulative length of river improved through delivery of the NEP programme to give an overall improvement in river length of 82.55km, outperforming the target of 6.6km.

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

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
93.46	95.19	**97.52**	>= 92.00	Reputational	Reputational

We have outperformed our performance commitment in 2016/17 with the overall percentage compliance increasing from 95.19% to 97.52%. This is a reputational measure so there is no associated reward.

Implementation of IT systems and new working procedures have now improved performance and this is reflected in the measure of success percentage compliance achieved. 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
40,102	27,197	**32,447**	>= 59,325	Reputational	Reputational

We have not met the regulatory target for 2016/17, having fitted 32,447 meters against a target of 59,325.

The target was based on historical performance and predictions in customer behaviour using the UKWIR econometric opting model. The level of customer demand for free water meters has however, significantly decreased in the past 2 years.

To address the lower than expected meter uptake we have initiated a number of actions. The free meter option has been promoted on both the front and back of all envelopes for 2017/18 unmeasured bills; circa.1.9 million bills were sent out to our unmeasured customers during February and March. We have seen an 8% increase in applications received in February and March compared to the previous year.

A pilot is also being developed which involves a “Price Promise” for customers who have a meter installed. This will cap the customer’s charges at the rate they would pay on Rateable Value based charges, but would allow them to pay the metered charges if these are lower. If this pilot is effective it could then be rolled out to a wider customer base.

1.1 b) Wastewater Service performance commitments

Performance against our wastewater service outcomes in 2016/17 and the cumulative performance in the AMP6 period to date, is set out in the table below. Further information on the calculation of index scores and associated incentives can be found in Appendix 2.

2016/17 Annual performance summary

Performance commitment	Actual		Performance commitments		Incentive		
	2015/16	2016/17	2016/17	Pass / Fail	Impact	2016/17 Annual (£m)	2016/17 Cumulative (£m)
We promise to dispose of your wastewater							
S-A1: Private sewers service index	91.7	91.9	<= 100	Pass	Reward	7.350	14.726
S-A2: Wastewater network performance index	90.95	89.47	<= 103.2	Pass	At target	0.000	0.000
S-B1: Future flood risk	16,472	16,418	<= 16,436	Pass	Reputational	N/A	N/A
S-B2: Sewer flooding index	100.8	94.4	<= 83.9	Fail	Penalty	(1.484)	(1.484)
We promise to protect and enhance the environment							
S-C1: Contribution to bathing waters improved	0.47	0.66	>= 0.66	Pass	At target	0.000	0.000
S-D1: Protecting rivers from deterioration due to population growth	48.0	48.0	>= 1.8	Pass	Penalty only	0.000	0.000
S-D2: Maintaining our wastewater treatment works	91.5	58.7	<= 83	Pass	Penalty only	0.000	0.000
S-D3: Contribution to rivers improved wastewater (Km)	0.75	45.6	>= 15.4	Pass	Reward	0.431	0.431
S-D4a: Wastewater (category 1 & 2) pollution incidents	4	2	<= 4	Pass	Penalty only	0.000	0.000
S-D4b: Wastewater category 3 pollution incidents	136	150	<= 201	Pass	Reward	3.278	6.556
S-D5: Satisfactory sludge disposal	100	100	= 100	Pass	At target	0.000	0.000
Wastewater Service (net reward)						**9.575**	**23.197**

Line 13 S-A1: Private sewers service index

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
95.20	91.69	**91.90**	<= 100.00	£7.350m (Rew)	£14.726m (Rew)

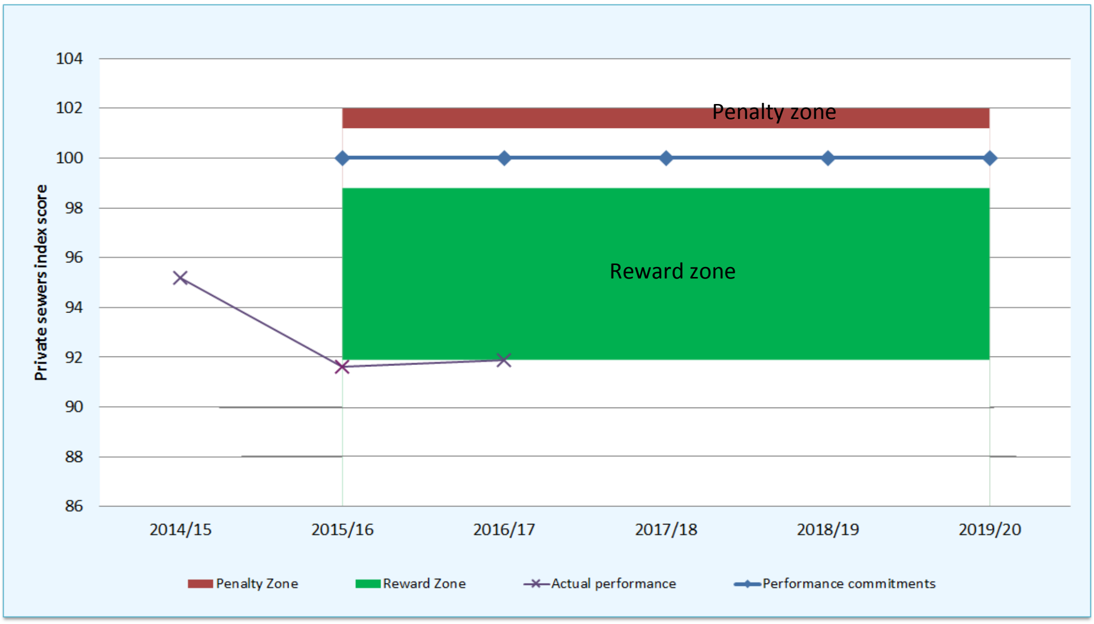
Private sewers index sub-measures

Sub-measure	Indicative Target 2015/16	Performance 2015/16	Indicative Target 2016/17	Performance 2016/17
Internal Hydraulic Flooding Incidents	<= 8	2	<= 8	1
Internal Flooding other causes (FoC) Incidents	<= 393	416	<= 393	414
External Hydraulic Flooding Incidents	<= 38	10	<= 38	5
External FoC Incidents	<= 4,782	4,595	<= 4,782	4,594
Collapse	<= 467	361	<= 467	391
Blockage	<= 15,518	13,906	<= 15,518	14,031
Pollution	<= 4	5	<= 4	1

This performance commitment measures the performance of the former network of private sewers which transferred to us in 2010. It does this via an index of sub-measures. The performance target has been set at a level of performance across AMP6 that is consistent with our typical performance in AMP5. The measure has financial penalties if performance deteriorates and financial rewards to encourage the company to improve performance and minimise customer impacts.

In 2016/17 we continued to outperform our performance commitment achieving an index score of 91.90 against a target of 100. This has earned a reward of £7.350 million.

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 £4.204 million per index point or a reward rate of £1.069 million per point. Details of the calculation of this index measure as set out in Appendix 2.

As shown in the table above we have outperformed the “asset performance” sub-measures of sewer blockages and sewer collapses and all of the “customer service” sub-measures, except for “internal flooding other causes”, which is again above the target for the year.

We believe that the majority of this improvement has been driven by the continued embedding of our operating model, which has an emphasis on first time resolution and reducing the numbers of repeat incidents. We suffered from major storm events in June and September. Whilst these events have increased the number of flooding incidents that occurred, it is possible that the wetter than average weather may have had a positive impact by helping to reduce the number of blockages on the performance of these smaller diameter sewers.

Line 14 S-A2: Wastewater Network Performance Index

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
94.30	90.95	**89.47**	<= 103.20	0	0

Wastewater network performance index sub-measures

Sub-measure	Indicative Target 2015/16	Performance 2015/16	Indicative Target 2016/17	Performance 2016/17
Rising Main Failures	40	51	40	46
Collapses	444	261	444	268
Blockages	8,754	7,473	8,425	7,469
Equipment Failures	2,403	2,704	2,383	2,322

Our wastewater network performance index consists of four sub-measures: rising main failures, collapses, blockages and equipment failures. 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 zone then we multiply the resulting difference by the incentive rate of £2.298 million per index point for penalty. Details of the calculation of this index measure as set out in Appendix 2

We have outperformed against this measure again this financial year with an index score of 89.47 against a target of 103.20. 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 general trend of a reducing number of blockages and collapses to continue.

We believe that the improved performance is primarily because 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. We also utilise “resolution units”, which are equipped with high specification equipment, which are continuing to positively impact on blockage numbers. We are also proactively engaging with customers through our “what not to flush” campaign to further reduce the number of blockages that occur.

Line 15 S-B1: Future flood risk

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	16,472	**16,418**	<= 16,436	Reputational	Reputational

For the second consecutive year of AMP6 we have achieved our target and reduced the number of properties from future flood risk. The future flood risk performance commitment 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 to progressively reduce the numbers of properties at modelled risk over AMP6. Properties have been removed this year as they have had mitigation installed. This mitigation will help to reduce the impact of a flood for customers. This measure is reputational only and so no financial penalty or reward will be applied.

Further removals will be made throughout the AMP as and when further capital projects, appropriate mitigation or sustainable drainage schemes are delivered. We 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

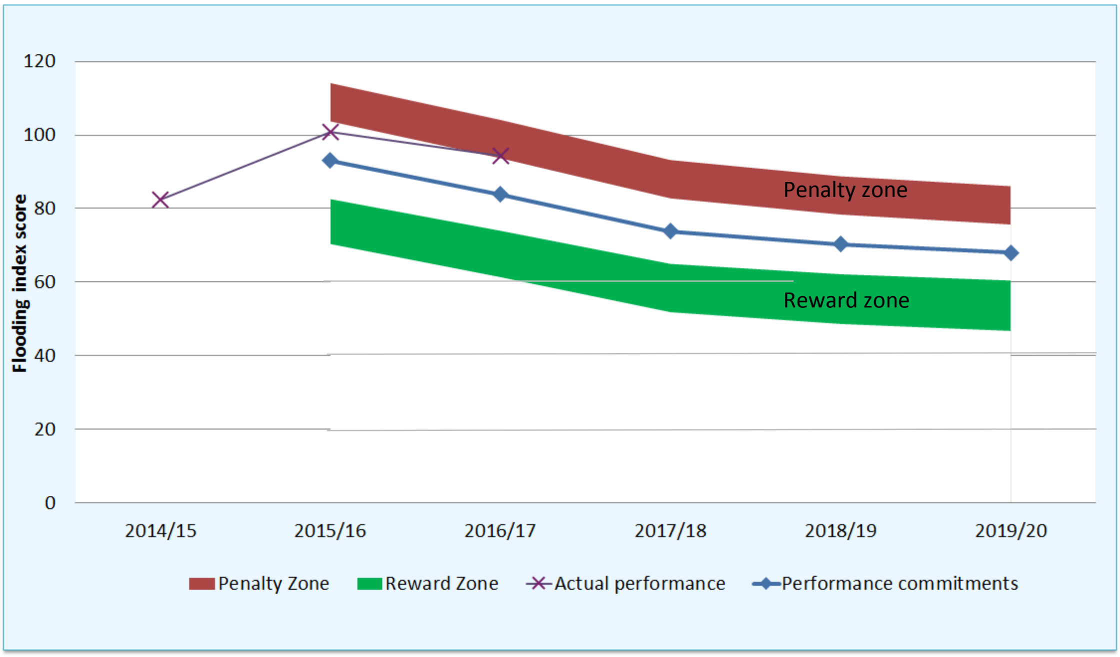
14/15 (Actual)	15/16 (Actual)	2016/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
82.50	100.77	**94.40**	<= 83.90	1.48m (Pen)	£28.8m (Pen)

Sewer flooding index sub-measures

Sub-measures	Indicative Target Performance 2015/16	Actual Performance 2015/16	Indicative Target Performance 2016/17	Actual Performance 2016/17
Repeat Flooding	367	377	338	362
Internal Hydraulic Incidents	100	147	78	147
Internal FoC Incidents	607	839	491	794
External Hydraulic Incidents	499	455	499	215
External FoC Incidents	3,878	3,391	3,715	3,274

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 added 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 £2.032 million per index point for penalty and £1.050 million per point for reward. Details of the calculation of this index measure as set out in Appendix 2

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 2016/17 was 94.40 index points, which is higher (worse) than the performance commitment target of 83.90. This performance results in a penalty of £1.48 million.

We suffered from two major storm events this year, one in June and one in September, which had a significant impact on our annual flooding performance. Major storms were experienced in St Helens, Macclesfield, Manchester South and Trafford. Whilst the most extreme parts of weather events are excluded from our measured performance the lesser extreme elements of the same weather system will still have significantly contributed to overall incident numbers. 23% of the yearly total incidents being recorded in June and 13% being recorded in September.

We recognise that this is an important area for customers and 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 and potentially all of the remaining years of the AMP.

Line 17 S-C1: Contribution to bathing waters improved

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	2016/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	0.47	**0.66**	>= 0.66	0	0

This performance commitment measures the programme of work that we have agreed with the Environment Agency (EA) to improve the impact that our assets have on bathing water compliance.

Each project in this programme has been an assigned a specific 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 £10.0 million per bathing water equivalent. This rate increases to £20 million in the final year of the AMP.

In 2016/17, we met the annual performance commitment target of 0.66 BWE. This was achieved by delivering our year two schemes on time including a scheme at Hesketh Bank, Mersey / North Wirral investigations and Tidal Ribble and Wyre investigations.

We anticipate that we should be able to deliver this programme of work in line with the annual performance commitment target 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)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	48.02	**48.02**	>= 1.8	0	0

This measure seeks to protect rivers from deterioration due to the impact that an increase in population could have upon the performance of our assets. It consists of a programme of work to enhance the assets that could be affected by this population growth. This programme of work is flexible so that it can respond to the changing growth needs within the North West.

A penalty incentivises 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 penalty rate at £0.058 million per km.

We are currently ahead of target for this measure. During 2016/17 (in response to residential and non-residential development), we significantly outperformed against this measure. Even though we have not delivered any projects this year, the outperformance in year one has put us ahead of our target for year two. We have developed a dynamic programme so that over the remaining years of the AMP we can respond to the needs of developers to provide the additional capacity needed. We are predicting that we will meet our performance commitment for the remainder of the AMP for this measure.

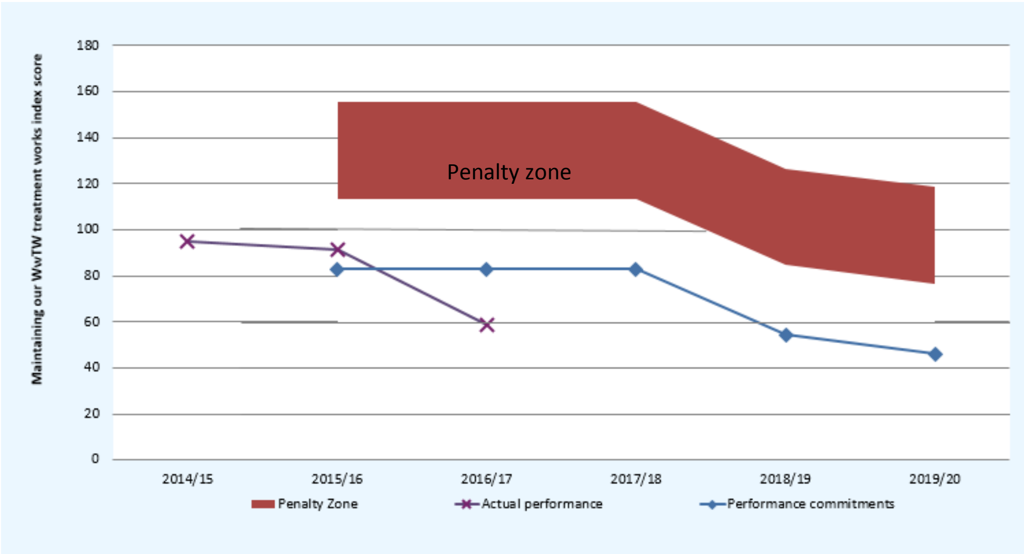
Line 19 S-D2: Maintaining our wastewater treatment works

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
94.990	91.485	**58.71**	<= 83.00	0	£13.0m (Pen)

This performance commitment is an index which assesses the number of wastewater treatment works (WwTW) that fail consent together with the number that operate at medium and high risk of failure. Details of the calculation of this index measure as set out in Appendix 2.

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 £0.572 million per index point. In 2016/17 we outperformed against the performance commitment target of 83.0 points, achieving 58.71 index points.

Maintaining our WwTW



The index score was largely impacted by the failure of two size band 1-4 works; Audley and Ambleside and three size band 6a works; Altrincham, Crewe and Oldham.

Wigan WwTW had initially been classified as a failing works, but we were able to demonstrate to the EA that third party (extreme rainfall events) impacts were responsible for the adverse effect on the WwTW that resulted in the non-compliant discharge.

To help to mitigate the risks associated with this measure, early and targeted maintenance investment has been incurred at many of our treatment works. Two projects in particular should help reduce the risk of failure from two of our largest WwTW. A major project at Oldham WwTW is scheduled for completion in December 2017, with the major project at Davyhulme scheduled for completion in January 2018.

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 and the failure of any major works can have a significant impact upon the index score. 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 (corrigendum)

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	0.75	**45.62**	>= 15.41	£0.431m	£0.7m (rew)

Contribution to rivers improved – wastewater programme (Revised NEP)

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
N/A	0.75	**46.98**	>= 13.38	£0.375m	£0.5 (rew)

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 the contribution to rivers improved performance commitment, the penalty incentive rate is £0.111 million per kilometre of river improved and £0.028 million per kilometre for the reward.

During 2016/17 we submitted two revised programme for this measure to Ofwat. The first revised programme reflected the outturn position at the end of AMP5 and corrected some minor errors. The second programme reflected a revised National environmental Programme (NEP), which has been agreed with the EA during AMP6 and after the PR14 determination was made.

Ofwat has confirmed that the “corrected PR14 programme”, should replace the programme within the FD and have published a corrigendum on their website. Our delivery against this programme is shown in the first table and is reflected throughout the APR.

We have also reported our performance against the revised NEP in the second table. This programme is more reflective of the projects that we will deliver and the schedule that each will be delivered to. To date the differences are relatively modest, however, as the period progresses the differences will become more significant. We feel that a comparison against this programme will provide the clearer comparison of our performance to our current commitment.

During 2016/17 we outperformed against both measures. Delivering all of the required projects on schedule and delivering the projects at Horwich, Dalston and Altrincham ahead of schedule. As shown in the table above we have delivered different km for rivers improved for each programme of work. This is because the event duration monitor (EDM) programme can only be claimed at the end of the corrigendum whereas the NEP allows us to claim individual EDMs as they are delivered.

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

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
2	4	**2**	<= 4	0	0

This measure tracks the number of serious pollution incidents that occur from 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 £0.420 million per incident.

This is a calendar year measure and in 2016 we have again out performed our performance commitment, with an outturn position of two incidents. These incidents were category two incidents and occurred at Bingswood Industrial Estate and Grove Road/Swineshaw Brook CSOs.

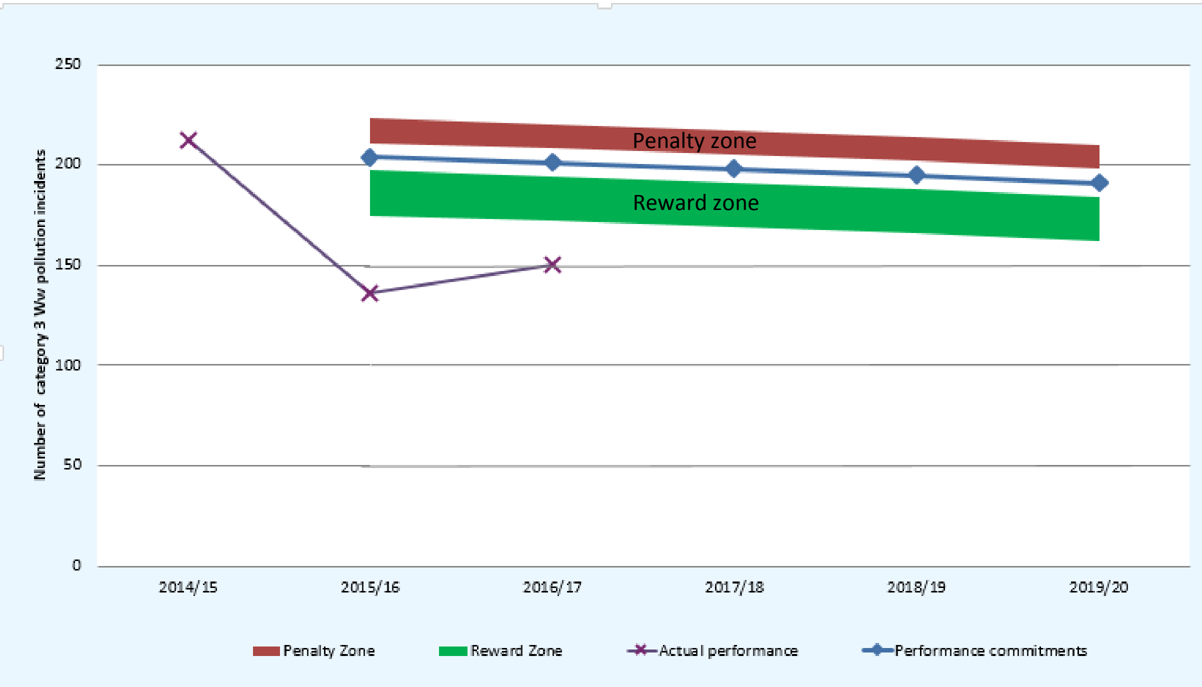
Line 22 S-D4b: Wastewater category 3 pollution incidents

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
212	136	**150**	<= 201	£3.278m (Rew)	£16.4 (Rew)

This measure assesses the number of category 3 pollution incidents that occur from our wastewater assets in 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 3 pollution incidents, the penalty incentive rate is £0.282 million per incident and £0.149 million per incident for the reward.

This is a calendar year measure and in 2016, we have significantly outperformed our category 3 pollution target with 150 incidents against a target of 201. This performance has enabled us to earn the maximum reward of £3.278 million.

Wastewater category 3 pollution incidents



We believe that the continued high 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, 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 future years of the AMP.

Line 23 S-D5: Satisfactory sludge disposal

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
100	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 £5.108 million per percentage point.

Achieving the target level expressed in the measure helps to maintain the confidence of both our regulators and stakeholders in the agricultural sector and the wider food chain, that our treated sludge is an attractive alternative to fertiliser.

We have achieved 100% compliance for this measure in the first two years of the AMP6 period and are on track to deliver this level of performance throughout the remainder of the AMP.

1.1 c) Retail and customer service performance commitments

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

2016/17 Retail Service Operational Performance Summary

Performance commitment	Actual		Performance commitments		Incentive	
	2015/16	2016/17	2016/17	Pass / Fail	Impact	Value
A-1: Service incentive mechanism (SIM)	82	85	UQWASC[1]	TBC	TBC	TBC
R-A2: Customer Experience Programme[2]	0.001	0.363	>= 3.37	On track	Deadband	N/A
B1: Customers saying that we offer value for money	50	52	>= 50	Pass	Reputational	N/A
B2: Per household consumption	303	305	<= 292	Fail	Reputational	N/A

[1] Our target is to be 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 target.

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

14/15 (Actual)	15/16 (Actual)	16/17 (Actual)	16/17 target	16/17 Incentive	Incentive AMP6
n/a[1]	82	85	UQWASC[2]	TBC	TBC

[1] SIM was measured differently during AMP5
[2] Our target is to be Upper quartile for water and sewerage companies.

SIM sub-measures

Sub-measure	2015/16 performance	2016/17 performance
SIM quantitative	95	77
SIM qualitative	4.27	4.42
SIM Combined	82	85

Our combined SIM score for 2016/17 was 85 representing an increase of three SIM points from 2015/16. Our target for the AMP6 period is to achieve an upper quartile performance level. However, until Ofwat report annual 2016/17 SIM combined performance for all water companies, we are unable to confirm our relative position for 2016/17 or to predict whether we have achieved upper quartile performance.

SIM is assessed based upon the number of contacts and complaints that we receive (Quantitative performance) and the way we respond to these contacts (Qualitative performance).

Quantitative Performance

Complaints: In 2016/17 we received a total of 7,433 complaints. This performance is 2,900 (28%) less complaints than in 2015/16. However, as described in our 2015/16 Annual Performance Report, we received a significant number of complaints relating to a major water quality incident in Lancashire in 2015. If the complaints relating to this incident are removed the normalised improvement in performance year on year is 18% (1,588 complaints).

- Billing has seen a 23% in year improvement with significant reductions in the top 10 complaint areas including moving house, high measured bills and direct debits.
- Water has seen a 4% improvement, once normalised to exclude the water quality event in 2015/16
- Wastewater has seen a 5% increase in complaint volume; this is associated with peaks in June and September due to flash flooding events caused by extreme weather.

There are 13 companies that share their results with each other in advance of them being published by Ofwat. This means that companies can have earlier sight of their relative performance. Based upon the most recent data share, we believe our total volume of complaints per 10,000 customers will be upper quartile compared to the other water and sewerage companies (WASCs).

Unwanted calls: SIM also measures the number of unwanted calls. A call from a customer is classed as unwanted if the caller has experienced some form of aggravation (however mild) and this has prompted them to make contact. In 2016/17 there was an increase of 2% (4,000 calls) compared to the normalised 2015/16 number, excluding the Lancashire water quality event. In 2015/16 our total performance for unwanted calls (including the water quality event) was ranked second of the WASCs behind Wessex and we expect to have performed relatively well in the current year.

Stage 2 complaints: The third aspect of the Quantitative SIM measure is stage 2 complaints. A stage 2 complaint is either a repeat complaint or a complaint that was not dealt with appropriately first time. In 2016/17 we received 231 Stage 2 complaints. This was 55% lower than in 2015/16 and a 48% reduction, once normalised to exclude the Lancashire water quality incident.

Stage 2 complaints are running at 3.1% of company complaint volumes, compared to 5% in 2015/16. In quarter 4 we saw a 75% reduction compared to the same period in 2015/16. We received and answered 35 stage 2 letters compared to 148 for the same quarter in 15/16. We believe that this is in line with the industry best performers.

CCW investigations: SIM also takes account of the number of CCWater investigations. We had no investigations during 2016/17.

Qualitative Performance

2016/17 has seen our best ever SIM qualitative performance and based upon available information we expect to finish the year in equal third of the 10 WASCs.

Our average score for 2016/17 was our highest ever at 4.42 (4.27 in 2015/16). This was above industry average with all our business areas achieving their internal targets. As can be seen in the table below our scores for the last survey of the year were well above industry average. As a result of this performance we expect to be above industry average for billing and wastewater and at industry average for water, placing us at overall equal third ranked WASC and sixth when all companies are considered.

2016/17 Qualitative SIM breakdown

	Industry Average for Wave 4	UUW Wave 4	Industry Average 2016/17	UUW 2016/17
Billing	4.48	4.57	4.47	4.53
Water	4.32	4.41	4.24	4.24
Wastewater	4.43	4.68	4.30	4.40
Overall	**4.41**	**4.56**	**4.37**	**4.42**

Line 25 R-A2: Customer Experience Programme

15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
£0.001m	**£0.363m**	£3.37m	0	0

Over recent years our household retail business has been developing and implementing a plan - the Customer Experience Programme - which is designed to improve customer services and to reduce operating costs.

The performance commitment (PC) associated with this programme assesses depreciation on the expenditure made within the programme. For activities delivered towards the end of the financial year the depreciation associated with the expenditure will not show until the following financial year. The cumulative target for this measure was not achieved in 2016/17 due to a change in the nature and expected commissioning of the programme compared to that set out in our PR14 business plan and reflected in the FD.

The work implemented on this programme to date 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.

The programme is on track to deliver the intended outcome within the AMP6 period. We are making substantial progress in delivering the programme and in 2016/17 we have achieved a number of key milestones.

- We have delivered a refresh of all our of telephony lines, with the new voice of 'Rebecca' conveying a more friendly and helpful tone.
- We have replaced our on-hold music and queue messaging to provide useful and relevant information particularly during operational incidents.
- We have produced a new suite of customer letters with a refreshed tone of voice; the new letters make it easier for our customers to understand the information following the removal of technical and complex jargon.
- We have launched our new customer website which has undergone some transformation and has a very different look and feel to the previous website.
- We have taken on board feedback from customers, who told us our website made it hard to find information, was difficult to navigate and wasn't very customer friendly, and have made some improvements.
- We have reduced the amount of content on the website and given it a fresh clean design. Customers can also now access our website on their mobile or tablet.
- At the same time we also launched our enhanced webchat capability (technology and service), which has simplified webchat functionality and increased webchat service operating hours.

We will continue to improve the way that we communicate with our customers through the remainder of the period, with a new Mobile App launched externally via the App store for customers to download in May. This is the industry's first fully interactive and real-time customer App. This first launch provides basic functionality such as paying a bill, viewing bills and inputting meter readings. Increased functionality will be delivered through the App throughout 2017/18.

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

15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
50%	**52%**	50%	Reputational	Reputational

We have met our performance commitment for 2016/17. This is a reputational measure based upon customers' perception of whether we provide them with value for money and has no associated financial reward.

We have undertaken a number of activities and initiatives during the year to increase visibility and awareness of the services that we provide, such as the increased promotion of our Priority Services schemes, payment assistance schemes and our "What Not to Flush" campaign. Partially as a consequence of this work the customer perception scores have improved from last year and we are ahead of our target.

Line 27 B2: Per household consumption

15/16 (Actual)	16/17 (Actual)	16/17 (PC)	16/17 Incentive	Incentive AMP6
303	**305**	<=292	Reputational	Reputational

We have not met the performance commitment for 2016/17. This is a reputational measure with no associated financial penalty.

Per household consumption for the year is 305 litres per property per day. Although this is higher than our performance commitment, it is in line with Met Office modelling of domestic consumption for 2016/17, which is 4% higher than that for a normal year (WRMP15 Base Year). Extensive water efficiency projects are ongoing, where we offer free home visits to install water saving devices.

1.2) Wholesale totex

Background: totex allowances and incentive mechanism

The PR14 process and FD set total expenditure (totex) allowances for the 2015-20 period for UUW's wholesale water and wholesale wastewater services.

- The total allowed expenditure for the wholesale water service was £2.397 billion (in 12/13 prices)
  - (£2.356 billion excluding pension deficit recovery costs).
- The allowed expenditure for the wholesale wastewater service was £2.979 billion (in 12/13 prices)
  - (£2.940 billion, excluding pension deficit recovery costs).

The next price review process in 2019 (PR19) will review how our actual expenditure compared against these PR14 assumptions, with variances against the initial assumptions being accounted for through a totex incentive mechanism. The detail of this mechanism is quite complex, although it is based upon 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 to the expenditure levels assumed within the PR14 FD are accounted for by revising the opening regulatory capital value (RCV) for the AMP7 period to reflect actual expenditure levels. An increase in expenditure results in an increase in the RCV.

- Variances to the expenditure levels assumed within the PR14 FD are also accounted for through a pain/gain mechanism, which provides a revenue reward for reductions in expenditure or a revenue penalty for increases in expenditure as part of the PR19 process.

These two processes work together in a way that if we can deliver the programme for a lower level of totex than assumed in the FD 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 company expenditure would not be shared with customers. The remaining costs are subject to the cost sharing incentive mechanism, and are described in the PR14 FD and the APR pro forma tables as "menu costs".

2016/17 and AMP6 cumulative expenditure to date

Totex expenditure in both 2015/16 and 2016/17 has been significantly higher than assumed in either the PR14 FD or in our PR14 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.

Between our initial PR14 business plan and our final PR14 proposals we set ourselves a challenge to drive out a further £400 million from our costs, with the FD setting a further challenge to meet the allowed costs.

In our 2015/16 Annual Performance Report we set out that we had developed an outline plan to meet the efficiency challenge set by the FD. During 2016/17 we have continued to work on improving the efficiency of our operations. Our approach to efficiency can be considered in three main areas:

- **Challenging Scope**: We have introduced a risk and value assessment for all our major projects. This assessment process uses a series of challenge sessions, before and during the project lifecycle, to ensure that issues are analysed thoroughly and that the right decision is always taken to ensure that best value is achieved. We are also working actively with regulators to assess and manage requirements and working with external partners to deliver better outcomes through innovative or catchment wide solutions.
- **Driving Innovation**: Innovation is a core value at United Utilities, with this being recognised in our world class status in the Dow Jones Sustainability Index. We utilise a structured innovation assessment process to help to ensure that innovation is part of the culture in the way that we develop our solutions and operate our business.
- **Reducing Price**: We have revised our model for capital delivery, procuring new design and build partners to help improve our capital efficiency through a combination of earlier engagement, solution innovation and reduced contract prices. This has seen us achieve cost savings in excess of 10% when compared to our AMP5 costs. We will continue to build on this approach and have developed and implemented a best in class procurement mechanism that allows us to identify and select the appropriate way to test our costs, which will ultimately lead to more cost efficient arrangements going forward.

As a consequence of this work we have further reduced the delivery risks associated with this programme and continue to believe that we will be able to deliver the required programmes of work, for a total expenditure level which is broadly in line with the FD assumptions.

As set out in the Executive Summary of this report and detailed within Section 2 (Regulatory Accounts), we are performing well on the way that we have been able to finance our operations. We have committed to invest some of this outperformance in a £100 million programme of resilience work, designed to provide additional customer benefits both over the next three years and in the longer term.

A comparison of our actual wholesale expenditure in 2016/17 against the expenditure levels assumed in the PR14 FD, together with an explanation of the variances, is set out below. To provide a like for like comparison, the £100 million of additional resilience investment is excluded from this analysis.

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Comparison of actual totex to FD assumed totex

APR Pro forma Table 4D and 4E (see Section 2.6) are the key table which sets out the build-up of our 2016/17 totex expenditure within the wholesale water and wholesale wastewater services. The expenditure within these tables is then summarised within **Pro forma Table 2B** (see Section 2.3).

Infrastructure capital maintenance expenditure (IRE) is included as operating expenditure, within line 5 Other operating expenditure, in Table 2B. In our original PR14 business plan and in the FD, IRE was included as a separate capital expenditure line. However, as totex allowances are set as a combined aggregate value - rather than as separate capex and opex allowances - this change in allocation does not impact upon the overall totex variance, or upon any PR19 incentive calculations.

The format of Pro forma Table 2B has also been revised since 2015/16. The table now splits the water service expenditure between water resources and network plus and splits the wastewater services expenditure between bio resources and network plus. This breakdown reflects the price control split which will be adopted for PR19. The split of expenditure between the two water and the two wastewater categories will not impact upon AMP6 incentives.

APR Pro forma Table 4B (see Section 2.6) consolidates the expenditure from Table 2B to produce water and wastewater totals, removing the items excluded from the menu to produce an adjusted actual totex level. It then deflates this to produce adjusted actual totex expenditure at base year prices, which can be compared to the allowed totex in the FD.

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

	2016/17		Cumulative	
	Water £m	Wastewater £m	Water £m	Wastewater £m
Allowed totex	**469.7**	**573.9**	**917.8**	**1,127.7**
Actual totex	**531.1**	**629.9**	**1,011.9**	**1,304.8**
Increase in expenditure	**+61.4**	**+56.0**	**+94.1**	**+177.1**

Comparison between the actual totex and the allowed totex needs to take account of the fact that the actual expenditure is accounted for on a principal use basis[1] whereas the expenditure assumed in the FD was derived on a proportional allocation basis.

Principal use allocation has increased the reported spend in wastewater and reduced the reported spend in water by approximately £30 million in 2016/17 and £64 million on a cumulative basis. The impact of removing this reallocation of costs on the totex variances is shown in the table below.

[1] Principal use accounting means that actual expenditure on assets that are used by more than one service (for example IT systems), is now included within the service that is the principal user of that asset, with subsequent recharges to other services that use that asset. In the final determination this expenditure was proportionally allocated between all the services that would use the asset.

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

	2016/17		Cumulative	
	Water £m	Wastewater £m	Water £m	Wastewater £m
Reported increase in expenditure	**+61**	**+55**	**+94**	**+177**
Removing principal use allocation	**+30**	**-30**	**+64**	**-64**
Like for like variance	**+91**	**+25**	**+158**	**+113**

On a like for like basis and at 12/13 prices, the cumulative overspend in the water service is £158 million with the cumulative overspend in the wastewater service being £113 million.

Totex variance analysis

The variance between the actual level of totex incurred and the level of totex assumed in the FD is due to a number of factors.

The outcome based regulatory framework is designed to incentivise companies to innovate and revise their plans and outputs, where this is beneficial. As such there have been substantial changes to the detailed scope of work that we will have already delivered and are planning to deliver in the period. Most of these changes are designed to deliver the same outcomes, but in a more effective way.

Despite these changes it is still useful to assess the changes to the programme in three broad areas - changes in scope, changes in timing and efficiency. The exact split between these three areas is dependent upon a number of factors including assumptions about future years' risks and efficiencies. As such the following assessment provides a relatively high level view of the scale of the movements in each of these three areas.

Changes in scope

For the purposes of this assessment we have assessed changes in scope as being the relatively small number of material revisions to the outputs that we will deliver in the period. These are either as a result of additionally imposed requirements or as a result of deliberate management decisions.

Water service: We have accommodated approximately £30 million of additional scope within our totex programme for the water service.

Additional expenditure has been incurred to address the lessons learnt from the water quality incident in 2015. Additional equipment has been provided and 24/7 manning has been introduced at some of our critical treatment works to improve resilience and reduce the inherent risk of a site failing.

Additional expenditure has also been incurred in minimising the risks associated with our water quality and reliable water indices and in cost-effectively targeting expenditure to reduce leakage levels.

Expenditure has also been incurred in preparing the wholesale business for the opening of the non-household retail market to competition. Costs were only included in the FD for the development of the central market operator's IT system.

Additional expenditure was also incurred in 2015/16 as a result of compensation and GSS payments associated with the water quality incident. These costs are not included in the totex incentive assessment and as such are fully borne by the company.

We are also seeking to accelerate the delivery of our major project to supply West Cumbria with water from Thirlmere (see section 1.1 a). If this is successful it would accelerate scope which was planned to be delivered in AMP7 into the AMP6 period. The additional costs associated with this acceleration would be recovered through a combination of the impact of the overspend through the totex incentive mechanism and through the outcome delivery incentive associated with the project.

Wastewater service: We have accommodated approximately £40 million of additional scope within our totex programme for the wastewater service.

In the wastewater service, we have incurred additional expenditure in AMP6 on a number of delayed AMP5 projects. 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.

We have also incurred additional expenditure in cost-effectively undertaking additional work to improve the performance levels in the previously private sewer network, which recently transferred to UUW management.

A proportion of the expenditure incurred in preparing the wholesale business for the opening of the non-household retail market to competition has also been allocated to the wastewater service, with additional expenditure being undertaken to address damage experienced in the winter storms of 2015/16.

It is also possible that, as the PR19 process progresses, we will seek to undertake early work on the delivery of some AMP7 environmental quality projects. If this was to be the case, then we would seek to recover the costs associated with this additional work through an AMP7 "transition programme", rather than through the AMP6 totex incentive regime.

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.

The programme that we are now delivering has some often substantial differences to the programme initially assumed within our business plan. However, on an equivalent basis and excluding the additional scope, discussed above, we have accelerated approximately £300 million of expenditure into the first two years of the AMP6 period. This accelerated expenditure is allocated approximately evenly between the water and the wastewater services.

Efficiency

For the purposes of this assessment we have included all cost reduction activities within this category. These range from individual project level cost efficiencies to strategic revisions to our approach to delivering our outcomes.

Our original PR14 business plan contained substantial efficiency challenges designed to reduce our costs to upper quartile efficiency levels, with further efficiency challenges being set by the FD. In total this required us to make efficiency savings of over £400 million to deliver our programmes of work for the costs allowed in the FD.

Our analysis has shown that we should be able to meet the original £400 million plus efficiency challenge and to be able to drive out sufficient additional efficiency, to allow the revised scope of work which we are now implementing (excluding our proposed £100m of additional investment on resilience) to be delivered for the total level of expenditure assumed in the FD.

As set out above, the variance between the cumulative FD assumed totex for the water service (on a proportional allocation basis) is approximately £160 million. Taking into account the £30 million of additional scope, and the £150 million of acceleration, shows that an overall programme level efficiency of approximately £20 million has been achieved to date. This value is over and above the efficiency targets set by the FD.

The cumulative variance for the wastewater service is approximately £110m. Taking into account the £40 million of additional scope and the £150 million of acceleration, shows an overall programme level efficiency of approximately £80 million, over and above the efficiency targets set by the FD.

Excluded Costs

The costs excluded from the totex incentive assessment as reported in Pro forma Table 4B comprise three main components:

- Pension deficit recovery costs. Ofwat included some costs within price limits to contribute toward pension deficit recovery costs that most companies are facing. UUW has contributed more to close the deficit than was assumed in price limits and now has a relatively well-developed and funded plan agreed by management and shareholders to deal with pension deficits.
- Third party costs, which are broadly in line with expectations
- Other costs, which are made up from two main elements
    - “transition expenditure” (expenditure incurred in AMP5 on AMP6 outputs), which is displayed as a negative value in APR Table 4B and is slightly lower than assumed in the FD due to exclusion of costs in 2013/14, and
    - Compensation and other guaranteed standards scheme payments, which mainly as a consequence of the 2015/16 water quality incident have more than offset the water service transition expenditure to result in a net positive exclusion.

Impact of expenditure on the RCV

APR Pro forma Table 4C sets out the 2016/17 RCV determined at the PR14 FD and shows the implied revisions to this position as a result of the impact of totex over or underspend and net rewards incurred through the outcome delivery incentives[2].

The RCV will be fully reassessed as part of the PR19 process with the value presented in Table 4C being referred to as a "shadow RCV". As can be seen in Table 4C the projected shadow RCV is £154 million higher than the RCV determined at the FD.

The increase in totex expenditure in the first two years of the period has resulted in an increase to the water service shadow RCV of £36 million and an increase in the wastewater service shadow RCV of £81 million. The net reward received for the wastewater ODIs has resulted in the additional increase of £22 million to the wastewater shadow RCV. There has been a net penalty for the water service ODIs which has no impact upon the RCV.

It should be noted that if expenditure levels over the full five year period are in line with FD assumptions then the current uplift to the RCV as a result of expenditure would reduce over the next three years.

Similarly the ODI impacts would only apply based upon five year performance and many of the targets for our ODIs become tougher through the AMP. 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

APR Tables 4D and 4E analyse the wholesale water and wastewater totex by the type of investment that has been incurred (e.g. power, capital maintenance etc.) and by the operating unit that this expenditure has been incurred on (e.g. raw water transport, water treatment etc.).

The operating expenditure within this table is then divided by a "cost driver" for each operating unit 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 there was significant variation between the values reported by some companies in last year's Annual Performance Report.

Differences between companies may reflect a number of factors including different asset configurations and performance requirements, different allocation of expenditure (such as IRE) and differing assumptions on cost allocations between operating units, as well as relative efficiency. These factors - together with differing capitalisation policies[3] and year on year cost variances - make meaningful comparisons between companies difficult.

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[2] ODI penalties result in revenue reductions at PR19, whereas rewards result in RCV adjustments.

[3] UUW's 2016/17 upstream services methodology and accompanying commentary are published on our website

1.3) Wholesale revenue and current cost financial performance

APR pro forma Table 2I, (see section 2.3) sets out the build-up of the wholesale revenue for 2016/17 and the variance compared with the level of revenue assumed in the FD.

The total revenue set by the wholesale price controls for recovery in 2016/17 was £1,582.2 million. This was made up of £1,554.2 million wholesale revenue, plus £28.0 million in grants and contributions. The level of revenue recovered in the year was marginally higher (£3.7 million) than the £1,578.5 million assumed in the PR14 FD.

Relative to the price review assumptions, revenue increases in the year were the result of factors including customer consumption being higher than forecast, a reduction in the number of Free Meter Option conversions, increased grants and contributions mainly due to increases in volumes of connections and infrastructure charges 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 early billing initiatives, partially offset by an improvement to the credit note provision as a result of a lower debt position.

APR pro forma Table 4A, (see section 2.6) provides additional information on household numbers and volumes. Distribution input increased slightly from 1,722 Ml/d in 2015/16 to 1,730.6 Ml/d in 2016/17. Volumes of bulk supplies exported and imported remained reasonably consistent in 2015/16 and 2016/17, with circa 12 Ml/d exported and 0.7 Ml/d imported.

APR pro forma Table 4G, (see section 2.6) summarises the wholesale current cost financial performance for 2016/17. The table has three sections:

Lines one to five add the non-price control revenue of £6.8 million (Table 2A) to the wholesale revenue (£1,554.1 million) to produce a total revenue of £1,560.9 million. It then subtracts operating expenditure, capital maintenance charges and other operating income to generate a wholesale current cost operating profit of £471.4 million.

Lines six to 10 add other income (including grants and contributions) and interest income and subtracts interest expense from the current cost operating profit to produce a current cost profit before tax and fair value movements of £268.0 million.

Lines 11 and 12 adjust the current cost profit before tax and fair value movements to take account of fair value gains on financial instruments, to produce a current cost profit before tax value of £273.2 million.

Wholesale operating profit and current cost profit before tax and fair value movements were approximately £20 million higher than in 2015/16. This was mainly due to the absence in 2016/17 of costs associated with water quality incidents in 2015/16. There was a larger increase in current cost profit before tax due to a change in the level of fair value gains/losses on financial instruments in each year.

1.4) Retail expenditure and revenues

Household retail

Background

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

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, or the outcome of the programme is not delivered, 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. Total revenue allowances were determined by multiplying these cost to serve allowances by the assumed customer numbers within each category and applying a margin defined as part of the price review.

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.

2016/17 performance

We recognise and have acted upon the challenge set by the PR14 determination. As described in Section 1.1 Outcome Delivery, we have made a step change in our customer service over recent years and have plans in place to deliver further improvements to our cost to serve during the remaining three years of the AMP6 period.

We are reducing our expenditure per customer year on year, focussing on three main areas; driving operational efficiency, improving debt management and making greater use of affordability solutions. In 2015/16 we significantly reduced our cost to serve and moved from 10th ranked WASC (out of 10) to 7th position. We have reduced our costs further during 2016/17 and have successfully met our challenging PR14 expenditure target for the year.

Our 2016/17 household retail operating costs and revenues are set out in APR pro forma Tables 2C and 2F (Section 2.3), with pro forma Table 4F (Section 2.6) analysing these costs by the type of retail service provided (dual/single and metered/un-metered).

Improving operating costs and efficiency

We have implemented a number of initiatives to reduce our operating costs, these include

- reducing overheads;
- unit cost, market testing and cost out opportunities;
- increased digital penetration; and,
- benefits achieved by improving operational performance and reducing the numbers of customer contacts.

APR Tables 2C and 4F show that total household retail operating costs in 2016/17 were £114.5 million. This figure is £5.8 million below the costs we incurred in 2015/16 and is below the operating costs of £115.4 million assumed in the PR14 FD.

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 - introduced in the prior year - has resulted in additional depreciation and amortisation charges to household retail of £4.4 million 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 FD allowance.

Improving debt management

UUW has a higher bad debt cost than the majority of the industry. Deprivation levels are the principal driver of our higher than average bad debt with the North West having a substantially higher proportion of customers impacted by welfare reform and claiming universal credits.

Recognising this challenge, debt and cash collection remains a priority for us. In 2014/15 Household bad debt costs were running at 6.3% of regulated revenue. Since this time we have maintained a clear focus on improving our bad debt and cash collection performance. This has included the establishment of a number of new initiatives, such as our “better billing” initiative and has involved working with Equifax to identify which customers are likely to be in a financially challenging situation and which customers are able to pay their water bill but need further encouragement and engagement in order to prompt them to do so.

In 2016/17 we have seen a significant uptake in the number of customers taking advantage of our financial assistance schemes with a consequent benefit on bad debt. This has been supported by the successful rollout of our Town Action Planning initiatives which engages with customers in our most deprived areas. To date 48% of contacts under the initiative have had positive outcomes and 75% of customers moved onto a payment plan remain on it. This initiative recently resulted in us being given the award for “Excellence in Treating Customer Vulnerability” at the Credit Awards’. This is a cross sectoral awards scheme which benchmarked our approach against initiates in other industries, beyond the water sector. Our current performance indicates that we will have more than double the number of customers on payment assistance schemes by the end of the AMP period than was assumed in the FD.

Our bad debt performance has also benefitted from the improvement in our cash collection performance in 2015/16 which led to a cleaner debt book brought forward into 2016/17. This improved cash performance has been sustained, leading to additional reductions in the bad debt charge. We have focussed on more dynamic targeting of debt collection activities, and have invested in testing and improving our debt management models. For example we have revised our early payment reminder letters, using a different tone of voice and style depending on individual customer’s payment history and likely financial circumstances.

Through increased use of financial assistance schemes to support those customers that can't pay and a more robust approach to those customers that won't pay, household bad debt performance for 2016/17 has improved to 4.3% of regulated revenue, with our bad debt charge having reduced to £51 million.

Our improved performance this year has been encouraging but bad debt will remain a challenge in our region of high deprivation and so will be an area of continued focus as we drive for further improvement.

Greater use of affordability Solutions

We have increased the reach of our financial assistance schemes and are now planning to reach more than double the number of customers we had originally forecast in our PR14 business plan. We originally anticipated that we would be able to help 51,000 customers through these schemes, whereas we already have 68,000 customers on financial assistance schemes and plan to increase this to 117,000 by the end of the five year period.

We have driven up the number of customers eligible for financial assistance schemes, through a range of initiatives. We have successfully rolled out of affordability campaigns including our Town Action Plan. We are making active use of customer segmentation data to systematically target more deprived areas and to increase the penetration of our assistance schemes. In addition we also have over 30,000 customers who now pay via the Department of Work and Pensions (DWP) and are proposing further data sharing with the DWP which could help further.

The penetration and conversion of customers onto affordability solutions does impact in year revenues, but it is a key factor in reducing the amount of bad debt that we are carrying and in supporting our drive to continue to reduce our cost to serve.

Revenue

APR pro forma Table 2F (see Section 2.3) shows that total household retail revenue in 2016/17 was £122.1 million. This figure is £7.7 million lower than in 2015/16 and £5.5 million less than the revenue, including margin, assumed in the PR14 FD, which was £127.6m.

Actual customer numbers at 2.97 million, were 47,000 higher than in 2015/16 and 25,000 higher than assumed in the PR14 FD. This was mainly due to property classification changes that were made in readiness for non-household retail competition. We undertook 32,000 Free Meter fits in the year, which was lower than the value used to calculate the indicative retail revenues assumed in price limits for 2016/17. These changes in customer numbers resulted in an increase in actual allowed household retail revenues of £0.4 million. However, this was more than offset by the impact of our social and support tariffs, which reduced household retail revenues by £5.9 million.

Operating profit

APR pro forma Table 2A (see Section 2.3) shows the operating profit for UUW's four price controls. For the household retail price control operating profit before recharges in 2016/17 (retail revenues minus operating costs) was £7.6 million. This is marginally lower than assumed in the FD, mainly due to increased support for customers on social and support tariffs.

Pro forma Table 2A also reports operating profit after recharges. This value, £3.4 million, is lower than operating profit, because recharges from household retail were £4.2 million higher than recharges to Household retail.

Non-household retail

During the year United Utilities Water Limited (UUW) completed its preparations for the opening of the non-household retail market to competition. On 1 April 2017 UUW formally exited the non-household retail market.

As part of this process, responsibility for UUW's non-household retail operations passed to Water Plus – a joint venture between United Utilities PLC and Severn Trent PLC - on 1 June 2016.

Between 1 June 2016 and 31 March 2017 UUW continued to be accountable for delivery of its licence obligations to non-household customers before exiting the market on 1 April 2017. The principal means of discharging this accountability was through the operation of Water Plus.

In support of the transfer of activities to Water Plus, on 26 May 2016 UUW transferred its non-household retail activities to its immediate parent, United Utilities North West Limited, by the way of a disposal of its customer base and billing systems. This represented a dividend distribution of £18.360 million from UUW (included within total dividends of £248.040 million shown in Table 1A).

The non-household values reported within our APR and regulatory accounts, represent UUW operations in April and May 2016 only, before the transfer to Water Plus. With this information having been subject to the full audit and review procedures set out within Appendix 1 of the APR.

The activities carried out by Water Plus from 1 June 2016 to 31 March 2017 have been set out in separate annual performance report and regulatory data tables produced by Water Plus and audited by Water Plus' appointed auditor Grant Thornton. This exercise required any central costs, assets and liabilities and cashflows within the Water Plus group to be allocated between UUW non-household, Severn Trent non-household and any non-regulated operations.

This report and tables are published on our website, along with a suite of combined tables showing the combination of the first two months of data, published within this APR and the final ten months of data published within the Water Plus report.

We believe that this approach minimises differences in reporting between regulatory and statutory accounts (in line with the requirements of RAG1.06), allows a clear alignment between audit opinions and each APR and means that our 2016/17 regulatory accounts will report a closing balance sheet position at 31 March 2017 which will equate to the balance sheet position in our 2017/18 APR.

A small number of non-household activities, such as developer services administration costs, remained with UUW throughout 2016/17 and will continue to remain with UUW in 2017/18 and beyond. The revenues and costs associated with these activities are included within our 2016/17 regulatory accounts and will continue to be reported, as the only costs, within the non-household price control within the future UUW regulatory accounts.

Table 2G and 2F, within section 2.3 of the APR, set out the 2016/17 non-household water and wastewater revenues by customer type for the first two months of the financial year.

Non-household retail expenditure and revenues 2016/17 (2 months only - out turn prices)

Measure	Ofwat FD assumption	2016/17 Actual	Variance
Retail revenue including net margin	£6.1m	£6.2m	+£0.1m

Ofwat FD values prorated down from published annual figures, actual information from APR Tables 2C

Non-household revenues for these two months were broadly in line with FD assumptions, although operating costs, at £8.5 million were higher than originally assumed. This increase in costs was mainly due to one-off costs in preparation for market opening.


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4. Regulatory Accounts for the 12 months ended 31 March 2017

2.1) Introduction

The Regulatory Accounts have been prepared in accordance with the requirements of Regulatory Accounting Guidelines (RAGs) 1.07, 2.06, 3.09, 4.06 and 5.06 issued by the Water Services Regulation Authority (WSRA or Ofwat). These are separate from the statutory financial statements which have been prepared under the basis of International Financial Reporting Standards as adopted for use in the European Union.

The directors, in accordance with RAG 3.09 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 in line with the Ofwat guidelines.

During the year United Utilities Water Limited (UUW) completed its preparations for the opening of the non-household retail market to competition and on 1 April 2017 formally exited this market to Water Plus Group Limited (Water Plus), a joint venture between United Utilities PLC and Severn Trent PLC. As part of this process, responsibility for UUW's non-household retail operations passed to Water Plus on 1 June 2016, although UUW remained accountable for ensuring that all of its licence obligations to its non-household customers were complied with until it formally exited the market on 1st April. In support of this transfer, on 26 May 2016, UUW transferred its non-household retail activities to its parent, United Utilities North West Limited by the way of a disposal of its customer base and billing systems. This represented a dividend distribution of £18.360 million from UUW (included within total dividends of £248.040 million shown in Table 1A).

These UUW regulatory accounts include the non-household activities carried out by UUW for the first two months of the year (including the activities carried out by UUW related parties immediately prior to the joint venture completion). They do not include the activities carried out by Water Plus from 1 June 2016 to 31 March 2017, which will be set out in regulatory tables produced by Water Plus with these tables being split by UUW and Severn Trent Water Limited, under the terms of the agreement. For 2017/18 Water Plus will report all of their non-household activities. A small number of non-household activities, such as developer services administration costs, remain with UUW and the revenues and costs associated with these activities are included within these regulatory accounts and will continue to be reported within the non-household price control within future UUW regulatory accounts.

Statement of directors' responsibilities for regulatory information

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

This additionally requires the directors to:

- Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months.
- Confirm that, in their opinion, the company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the company.

- Confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker.
- Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities.
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length.
- Keep proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the 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 provisions 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 Water Services Regulation Authority 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
9 June 2017

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

Opinion on Regulatory Accounts

In our opinion, United Utilities Water Limited's Regulatory Accounting Statements within the Regulatory Accounts have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.07, RAG 2.06, RAG 3.09, RAG 4.06 and RAG 5.06) and the accounting policies set out on pages 96 to 100 (including the Accounting Separation Methodology).

Emphasis of matter - basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Regulatory Accounts, 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 set out in the statement of accounting policies (including the Accounting Separation Methodology) and under the historical cost convention. The nature, form and content of the Regulatory Accounts statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 82 to 100 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

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) and the related notes on pages 82 to 86; and 96 to 100.
- 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) and the related notes on pages 87 to 95.

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out in the notes to the Regulatory Accounts (including the Accounting Separation Methodology).

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 (tables 3A to 3D) 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.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Regulatory Accounts, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as set out below.

We no longer consider derivative financial instrument valuations to be a significant risk of material misstatement on the basis that the valuations performed are mechanistic in nature, and although they are cumulatively a large balance, the risk of an error within the balance is relatively low.

	The risk	Our response
Revenue recognition and provision for customer debts Revenue (£1,689.2 million; 2016: £ 1,706.5 million)	**Subjective estimation:** A proportion of the company's customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Due to the level of judgement and complexity of the calculation which could lead to the provision for customer debt being misstated, this is considered a key audit risk. An estimate is required of revenue for the value of water supplied to metered customers between the last meter reading and the period end.	Our procedures included: **Control observation:** testing the company's controls over revenue recognition and provision for customer debts, including reconciliations between sales and cash receipts systems and the general ledger; **Methodology choice:** assessing the appropriateness of the customer debt provisioning based on historical cash collections, credits, re-bills and write off information; **Tests of details:** assessing the assumptions used to calculate the metered accrued income by considering whether inputs to the calculation have been derived appropriately and recalculating the accrued income with the support of our own modelling specialists; and **Assessing transparency:** assessing the adequacy of the company's disclosures of its revenue recognition and customer debt provisioning policies, including the estimation uncertainty involved in the bad debt provision.

Capital expenditure (£650.1 million; 2016: £678.6 million)	**Accounting treatment:** The company has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. The determination of project costs as capital or operating expenditure is inherently judgemental as there is a need to distinguish between enhancement and maintenance works. Costs capitalised include an allocation of overhead costs, relating to the proportion of time spent by support function staff, which is also inherently judgemental.	Our procedures included: **Accounting analysis:** assessing the company's capitalisation policy for compliance with relevant accounting standards; **Control observation:** testing controls over the application of the policy in the period including assessment of project business case submissions, and attending capital approval meetings to observe the judgements made and evaluating the documented conclusions; **Tests of details:** critically assessing the costs capitalised for a sample of projects against the capitalisation policy; **Tests of details:** identify and assess the impact of in year changes to capitalisation rates for all existing projects, as once set they are typically unchanged period to period; **Historical comparisons:** critically assess the proportion of overhead costs by business area which are capitalised using historical comparisons and expected changes based upon corroborated enquiry and our sector knowledge; and **Assessing transparency:** assessing the adequacy of the company's disclosures of its capitalisation policy and other related disclosures.
Retirement benefit surplus (£194.5 million; 2016: £226.9 million)	**Subjective estimation** Significant estimates are made in valuing the company's retirement benefit obligation. Small changes in assumptions and estimates used to value the company's pension obligation would have a significant effect on the company's financial position.	Our procedures included: **Benchmarking assumptions:** challenging the key assumptions supporting the company's retirement benefit obligations valuation with input from our own actuarial specialists, including comparing the discount rate, inflation rate, salary, pension increase rates and life expectancy assumptions used against externally derived data; and **Assessing transparency:** assessing the company's disclosure of the surplus.

Our application of materiality and an overview of the scope of our audit

Materiality for the company financial statements as a whole was set at £18.5 million (2016: £19.0 million), determined with reference to a benchmark of company profit before tax, normalised to exclude net fair value losses on debt and derivative instruments. Materiality represents 4.9% (2016: 5.2%) of normalised company profit before tax. Specific audit procedures have been performed over items excluded from the normalised profit before tax.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5 million (2016: £0.5 million), in addition to other identified misstatements that warrant reporting on qualitative grounds

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 75 and 76, the directors are responsible for the preparation of the Regulatory Accounts in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Accounting Separation Methodology).

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 ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' 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 of 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 International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in the notes on pages 96 to 100 and its Accounting Separation Methodology. We are not required to assess whether the methods of cost allocation set out in the Accounting Separation Methodology 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Regulatory Accounts is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Regulatory Accounts is fair, balanced and understandable and whether the Regulatory Accounts appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.

Other matters

Our opinion on the Regulatory Accounting Statements within the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 9 June 2017, 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.

William Meredith
For and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
9 June 2017

2.3) Pro forma tables subject to audit opinion

Pro forma tables Section 1 Regulatory financial reporting

Additional commentary on the Section 1 pro forma tables is provided in Section 2.7 Additional Table Narrative

Pro forma 1A Income statement

Financial performance for the 12 months ended 31 March 2017

	Line description	Units	DPs	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
1	Revenue	£m	3	1680.310	19.656	10.799	8.857	1689.167
2	Operating costs	£m	3	-1073.533	-37.296	-6.006	-31.290	-1104.823
3	Other operating income	£m	3	0.000	-4.026	-0.022	-4.004	-4.004
4	**Operating profit**	**£m**	**3**	**606.777**	**-21.666**	**4.771**	**-26.437**	**580.340**
5	Other income	£m	3	0.000	30.470	2.247	28.223	28.223
6	Interest income	£m	3	10.685	0.000	0.000	0.000	10.685
7	Interest expense	£m	3	-213.165	-29.155	0.000	-29.155	-242.320
8	Other interest expense	£m	3	0.000	0.020	0.000	0.020	0.020
9	**Profit before tax and fair value movements**	**£m**	**3**	**404.297**	**-20.332**	**7.018**	**-27.350**	**376.947**
10	Fair value gains/(losses) on financial instruments	£m	3	5.175	0.000	0.000	0.000	5.175
11	**Profit before tax**	**£m**	**3**	**409.472**	**-20.332**	**7.018**	**-27.350**	**382.122**
12	UK Corporation tax	£m	3	-45.500	-0.029	-1.404	1.374	-44.126
13	Deferred tax	£m	3	23.788	2.553	0.000	2.553	26.341
14	**Profit for the year**	**£m**	**3**	**387.760**	**-17.808**	**5.614**	**-23.422**	**364.338**
15	Dividends	£m	3	-248.040	0.000	-5.352	5.352	-242.688

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For line definitions see Excel version of the data tables

Pro forma 1B Statement of comprehensive income

Financial performance for the 12 months ended 31 March 2017

Line description		Units	DPs	Statutory	Adjustments			Total appointed activities
					Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
1	Profit for the year	£m	3	387.760	-17.808	5.614	-23.422	364.338
2	Actuarial gains/(losses) on post employment plans	£m	3	-70.455	0.000	0.000	0.000	-70.455
3	Other comprehensive income	£m	3	15.400	0.000	0.000	0.000	15.400
4	**Total Comprehensive income for the year**	**£m**	**3**	**332.705**	**-17.808**	**5.614**	**-23.422**	**309.283**

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For line definitions see Excel version of the data tables

Pro forma 1C Statement of financial position

Financial performance for the 12 months ended 31 March 2017

	Line description	Units	DPs	Statutory	Adjustments			Total appointed activities
					Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
A	Non-current assets							
1	Fixed assets	£m	3	10361.033	-104.930	1.404	-106.334	10254.699
2	Intangible assets	£m	3	187.652	-4.394	2.280	-6.675	180.977
3	Investments - loans to group companies	£m	3	0.000	0.000	0.000	0.000	0.000
4	Investments - other	£m	3	0.142	0.000	0.000	0.000	0.142
5	Financial instruments	£m	3	544.007	0.000	0.000	0.000	544.007
6	Retirement benefit assets	£m	3	194.500	0.000	0.000	0.000	194.500
7	**Total non-current assets**	£m	3	**11287.334**	**-109.324**	**3.685**	**-113.009**	**11174.325**
B	Current assets							
8	Inventories	£m	3	9.023	0.000	0.000	0.000	9.023
9	Trade & other receivables	£m	3	443.206	23.085	3.942	19.143	462.349
10	Financial instruments	£m	3	76.186	0.000	0.000	0.000	76.186
11	Cash & cash equivalents	£m	3	196.883	0.000	0.000	0.000	196.883
12	**Total current assets**	£m	3	**725.298**	**23.085**	**3.942**	**19.143**	**744.441**
C	Current liabilities							
13	Trade & other payables	£m	3	-238.383	-17.837	-0.609	-17.228	-255.611
14	Capex creditor	£m	3	-71.121	0.000	0.000	0.000	-71.121
15	Borrowings	£m	3	-384.381	26.314	0.000	26.314	-358.066
16	Financial instruments	£m	3	-14.203	0.000	0.000	0.000	-14.203
17	Current tax liabilities	£m	3	-15.439	0.000	-1.404	1.404	-14.036
18	Provisions	£m	3	-22.881	-8.478	0.000	-8.478	-31.358
19	**Total current liabilities**	£m	3	**-746.408**	**0.000**	**-2.013**	**2.013**	**-744.395**
20	**Net current assets / (liabilities)**	£m	3	**-21.110**	**23.085**	**1.929**	**21.156**	**0.046**
D	Non-Current liabilities							
21	Trade & other payables	£m	3	-587.869	570.689	0.000	570.689	-17.180
22	Borrowings	£m	3	-7079.809	0.000	0.000	0.000	-7079.809
23	Financial instruments	£m	3	-235.503	0.000	0.000	0.000	-235.503
24	Retirement benefit obligations	£m	3	0.000	0.000	0.000	0.000	0.000
25	Provisions	£m	3	0.000	0.000	0.000	0.000	0.000
26	Deferred income - G&C's	£m	3	0.000	-570.689	0.000	-570.689	-570.689
27	Preference share capital	£m	3	0.000	0.000	0.000	0.000	0.000
28	Deferred tax	£m	3	-1016.631	17.668	0.000	17.668	-998.963
29	**Total non-current liabilities**	£m	3	**-8919.812**	**17.668**	**0.000**	**17.668**	**-8902.144**
30	**Net assets**	£m	3	**2346.412**	**-68.570**	**5.614**	**-74.185**	**2272.227**
E	Equity							
31	Called up share capital	£m	3	-100.000	0.000	0.000	0.000	-100.000
32	Retained earnings & other reserves	£m	3	-2246.412	68.570	-5.614	74.185	-2172.227
33	**Total Equity**	£m	3	**-2346.412**	**68.570**	**-5.614**	**74.185**	**-2272.227**

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For line definitions see Excel version of the data tables

Pro forma 1D Statement of cash flows

Financial performance for the 12 months ended 31 March 2017

	Line description	Units	DPs	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	3	606.777	-21.666	4.771	-26.437	580.340
2	Other income	£m	3	0.000	30.470	2.247	28.223	28.223
3	Depreciation	£m	3	363.897	-3.589	0.118	-3.707	360.189
4	Amortisation - G&C's	£m	3	-6.656	0.000	0.000	0.000	-6.656
5	Changes in working capital	£m	3	61.007	-5.214	-1.850	-3.364	57.643
6	Pension contributions	£m	3	-29.655	-22.814	0.000	-22.814	-52.469
7	Movement in provisions	£m	3	7.958	22.814	0.000	22.814	30.772
8	Profit on sale of fixed assets	£m	3	3.780	0.000	0.000	0.000	3.780
9	**Cash generated from operations**	**£m**	**3**	**1007.107**	**0.000**	**5.286**	**-5.286**	**1001.821**
10	Net interest paid	£m	3	-158.310	0.000	0.000	0.000	-158.310
11	Tax paid	£m	3	-41.179	0.000	0.066	-0.066	-41.245
12	**Net cash generated from operating activities**	**£m**	**3**	**807.618**	**0.000**	**5.352**	**-5.352**	**802.266**
C	Investing activities							
13	Capital expenditure	£m	3	-711.133	0.000	0.000	0.000	-711.133
14	Grants & Contributions	£m	3	29.025	0.000	0.000	0.000	29.025
15	Disposal of fixed assets	£m	3	4.046	0.000	0.000	0.000	4.046
16	Other	£m	3	-100.014	0.000	0.000	0.000	-100.014
17	**Net cash used in investing activities**	**£m**	**3**	**-778.076**	**0.000**	**0.000**	**0.000**	**-778.076**
18	**Net cash generated before financing activities**	**£m**	**3**	**29.542**	**0.000**	**5.352**	**-5.352**	**24.190**
D	Cashflows from financing activities							
19	Equity dividends paid	£m	3	-229.680	0.000	-5.352	5.352	-224.328
20	Net loans received	£m	3	197.182	0.000	0.000	0.000	197.182
21	Cash inflow from equity financing	£m	3	0.000	0.000	0.000	0.000	0.000
22	**Net cash generated from financing activities**	**£m**	**3**	**-32.498**	**0.000**	**-5.352**	**5.352**	**-27.146**
23	**Increase (decrease) in net cash**	**£m**	**3**	**-2.956**	**0.000**	**0.000**	**0.000**	**-2.956**

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For line definitions see Excel version of the data tables

Pro forma 1E Net debt analysis

Net debt analysis at 31 March 2017

	Line description	Units	DPs	Interest rate risk profile			
				Fixed rate	Floating rate	Index linked	Total
1	Borrowings (excluding preference shares)	£m	3	1935.707	1200.697	3592.074	6728.479
2	Preference share capital	£m	3				0.000
3	Total borrowings	£m	3				6728.479
4	Cash	£m	3				-0.580
5	Short term deposits	£m	3				-236.303
6	Net Debt	£m	3				6491.596
7	Gearing	%	2				61.44%
8	Adjusted gearing	%	2				60.10%
9	Full year equivalent nominal interest cost	£m	3	114.141	-1.242	160.075	272.974
10	Full year equivalent cash interest payment	£m	3	114.141	-1.242	46.646	159.545
	Indicative interest rates						
11	Indicative weighted average nominal interest rate	%	2	3.61%	n/a	4.46%	4.00%
12	Indicative weighted average cash interest rate	%	2	3.61%	n/a	1.30%	2.34%
13	Weighted average years to maturity	nr	2	5.64	n/a	19.51	13.28

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Pro forma tables Section 2 Price review and other segmental reporting

Pro forma 2A Segmental income statement

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Retail		Wholesale						Total
				Household	Non-Household	Water resources	Water Network+	Water Total	Waste water Network+	Sludge	Wastewater total	
1	Revenue - price control	£m	3	122.062	6.160		704.948	704.948	849.223		849.223	1682.392
2	Revenue - non price control	£m	3	0.000	0.019		3.727	3.727	3.028		3.028	6.775
3	Operating expenditure	£m	3	-107.527	-8.575	-56.078	-292.471	-348.549	-244.475	-35.507	-279.983	-744.634
4	Depreciation - tangible fixed assets	£m	3	-1.859	0.000	-7.950	-114.407	-122.357	-170.663	-37.215	-207.878	-332.094
5	Amortisation - intangible fixed assets	£m	3	-5.064	0.000	-0.032	-4.142	-4.174	-18.581	-0.276	-18.857	-28.095
6	Other operating income	£m	3	-0.002	0.000	0.547	-0.411	0.136	-3.027	-1.111	-4.138	-4.004
7	**Operating profit before recharges**	**£m**	**3**	**7.610**	**-2.396**			**233.731**			**341.396**	**580.340**
8	Recharges from other segments	£m	3	-5.199	0.000	-2.099	-16.188	-18.287	-2.595	-4.819	-7.414	-30.900
9	Recharges to other segments	£m	3	0.974	0.000	0.000	5.103	5.103	24.204	0.619	24.823	30.900
10	**Operating profit**	**£m**	**3**	**3.385**	**-2.396**			**220.547**			**358.805**	**580.340**
11	Surface water drainage rebates	£m	3									0.235

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For line definitions see Excel version of the data tables

Pro forma 2B Totex analysis – wholesale water and wastewater

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Water Resources	Water Network+	Wastewater Network+	Sludge	Total
A	Operating expenditure							
1	Power	£m	3	4.619	25.385	46.738	-5.134	71.608
2	Income treated as negative expenditure	£m	3	-0.007	-0.177	-0.159	-6.153	-6.496
3	Service charges/ discharge consents	£m	3	14.765	0.000	5.292	0.327	20.384
4	Bulk supply/ Bulk discharge	£m	3	0.000	0.185	0.000	0.000	0.185
5	Other operating expenditure	£m	3	18.393	219.716	171.442	39.527	449.079
6	Local authority and Cumulo rates	£m	3	17.297	45.546	21.163	6.940	90.946
7	**Total operating expenditure excluding third party services**	**£m**	**3**	**55.067**	**290.657**	**244.475**	**35.507**	**625.706**
8	Third party services	£m	3	1.011	1.815	0.000	0.000	2.826
9	**Total operating expenditure**	**£m**	**3**	**56.078**	**292.471**	**244.475**	**35.507**	**628.532**
B	Capital Expenditure							
10	Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000
11	Maintaining the long term capability of the assets - non- infra	£m	3	2.367	159.309	230.991	22.223	414.891
12	Other capital expenditure - infra	£m	3	2.001	66.130	66.159	0.410	134.700
13	Other capital expenditure - non-infra	£m	3	3.434	27.949	93.618	8.361	133.362
14	**Total gross capital expenditure excluding third party services**	**£m**	**3**	**7.802**	**253.388**	**390.768**	**30.995**	**682.953**
15	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000
16	**Total gross capital expenditure**	**£m**	**3**	**7.802**	**253.388**	**390.768**	**30.995**	**682.953**
17	Grants and contributions	£m	3	0.010	28.664	20.199	0.000	48.873
18	**Totex**	**£m**	**3**	**63.870**	**517.195**	**615.045**	**66.502**	**1262.612**
C	Cash Expenditure							
19	Pension deficit recovery payments	£m	3	1.470	14.572	11.157	3.847	31.046
20	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000
D	Total							
21	**Totex including cash items**	**£m**	**3**	**65.339**	**531.768**	**626.202**	**70.349**	**1293.659**

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For line definitions see Excel version of the data tables

Pro forma 2C Operating cost analysis - retail

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Household	Non-household	Total
	Operating expenditure					
1	Customer services	£m	3	29.186	1.612	30.798
2	Debt management	£m	3	12.124	1.729	13.853
3	Doubtful debts	£m	3	51.379	0.843	52.222
4	Meter reading	£m	3	4.856	0.336	5.191
5	Services to developers	£m	3		0.519	0.519
6	Other operating expenditure	£m	3	9.982	3.537	13.519
7	**Total operating expenditure excluding third party services**	**£m**	**3**	**107.527**	**8.575**	**116.102**
8	Third party services operating expenditure	£m	3	0.000	0.000	0.000
9	**Total operating expenditure**	**£m**	**3**	**107.527**	**8.575**	**116.102**
10	Depreciation - tangible fixed assets	£m	3	1.859	0.000	1.859
11	Amortisation - intangible fixed assets	£m	3	5.064	0.000	5.064
12	**Total operating costs**	**£m**	**3**	**114.451**	**8.575**	**123.026**
13	Debt written off	£m	3	63.941	2.725	66.665

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Annual Performance Report 2017

Regulatory Accounts

United Utilities
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Pro forma 2D Historic cost analysis of fixed assets – wholesale and retail

	Line description	Units	DPs	Wholesale				Retail		Total
				Water Resources	Water Network+	Wastewater Network+	Sludge	Household	Non-Household	
A	Cost									
1	At 1 April 2016	£m	3	287.014	4683.180	7296.929	996.066	50.430	3.127	13316.746
2	Disposals	£m	3	-0.651	-44.230	-32.078	-4.540	-4.900	-3.127	-89.526
3	Additions	£m	3	7.802	249.524	360.829	30.918	1.071	0.000	650.144
4	Assets adopted at nil cost	£m	3	0.000	6.564	26.843	0.000	0.000	0.000	33.407
5	**At 31 March 2017**	£m	3	**294.165**	**4895.038**	**7652.523**	**1022.444**	**46.601**	**0.000**	**13910.771**
B	Depreciation									
6	At 1 April 2016	£m	3	-95.713	-1224.792	-1719.662	-318.921	-40.851	-1.856	-3401.795
7	Disposals	£m	3	0.382	37.309	31.943	3.068	3.259	1.856	77.817
8	Charge for the year	£m	3	-7.950	-114.407	-170.663	-37.215	-1.859	0.000	-332.094
9	**At 31 March 2017**	£m	3	**-103.281**	**-1301.890**	**-1858.382**	**-353.068**	**-39.451**	**0.000**	**-3656.072**
10	**Net book amount at 31 March 2017**	£m	3	**190.884**	**3593.148**	**5794.141**	**669.376**	**7.150**	**0.000**	**10254.699**
11	**Net book amount at 1 April 2016**	£m	3	**191.301**	**3458.388**	**5577.267**	**677.145**	**9.579**	**1.271**	**9914.951**
D	Depreciation charge for year									
12	Principal services	£m	3	-7.201	-114.299	-170.663	-37.215	-1.859	0.000	-331.237
13	Third party services	£m	3	-0.749	-0.108	0.000	0.000	0.000	0.000	-0.857
14	**Total**	£m	3	**-7.950**	**-114.407**	**-170.663**	**-37.215**	**-1.859**	**0.000**	**-332.094**

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For line definitions see Excel version of the data tables

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

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Current year: Fully recognised in income statement	Current year: Capitalised and amortised (in income statement)	Current year: Fully netted off capex	Current year: Total
A	Grants and contributions - water						
1	Connection charges (s45)	£m	3	0.000	6.129	0.000	6.129
2	Infrastructure charge receipts (s146)	£m	3	0.000	9.614	0.000	9.614
3	Requisitioned mains (s43, s55 & s56)	£m	3	2.662	0.000	0.000	2.662
4	Diversions (s185)	£m	3	9.442	0.000	0.000	9.442
5	Other Contributions	£m	3	0.000	0.826	0.000	0.826
6	**Total**	**£m**	**3**	**12.105**	**16.570**	**0.000**	**28.674**
7	Value of adopted assets	£m	3		6.564		6.564
B	Grants and contributions - wastewater						
8	Infrastructure charge receipts (s146)	£m	3	0.000	9.528	0.000	9.528
9	Requisitioned sewers (s100)	£m	3	0.082	0.000	0.000	0.082
10	Diversions (s185)	£m	3	7.661	0.000	0.000	7.661
11	Other Contributions	£m	3	0.000	2.928	0.000	2.928
12	**Total**	**£m**	**3**	**7.743**	**12.456**	**0.000**	**20.199**
13	Value of adopted assets	£m	3		26.843		26.843

	Line description	Units	DPs	Current year: Water	Current year: Wastewater	Current year: Total
C	Movements in capitalised grants and contributions					
14	Brought forward	£m	3	116.900	80.406	197.307
15	Capitalised in year	£m	3	16.570	12.455	29.025
16	Amortisation (in income statement)	£m	3	-3.818	-2.838	-6.656
17	**Carried forward**	**£m**	**3**	**129.652**	**90.023**	**219.675**
D	Land sales					
18	Proceeds from disposals of protected land	£m	3	2.853	0.192	3.045

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For line definitions see Excel version of the data tables

Pro forma 2F Household – revenues by customer type

	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	10.475	1.102	11.577	44.617	24.699
2	Unmeasured wastewater only customer	4.575	0.501	5.076	24.682	20.298
3	Unmeasured water and wastewater customer	662.352	69.163	731.515	1688.940	40.951
4	Measured water only customer	4.104	0.589	4.693	25.996	22.657
5	Measured wastewater only customer	5.727	0.700	6.427	44.369	15.777
6	Measured water and wastewater customer	374.227	50.007	424.234	1143.348	43.737
7	**Total**	**1061.460**	**122.062**	**1183.522**	**2971.952**	**41.071**

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Pro forma 2G Non-household water – revenues by customer type

	Line description	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of connections (000s)	Average non-household retail revenue per connection £
A	Non-Default tariffs					
1	Total non-default tariffs	0.063	0.267	0.329	1.721	155
B	Default tariffs					
2	1 Up to 50 Ml Water Unmetered	0.382	0.036	0.418	12.994	3
3	2 Up to 50Ml Water Metered	22.231	2.054	24.286	153.314	13
4	3 > 50Ml water metered	8.072	0.354	8.425	0.188	1881
5	4 Up to 50Ml Non-potable Water Metered	0.001	0.000	0.002	0.045	8
6	5 > 50Ml Non-potable Water Metered	0.353	0.032	0.385	0.011	2864
7	15 Water Special Agreements	0.090	0.003	0.093	0.006	501
8				0.000		0
9				0.000		0
10				0.000		0
11				0.000		0
12				0.000		0
13				0.000		0
14				0.000		0
15				0.000		0
16				0.000		0
17				0.000		0
18				0.000		0
19				0.000		0
20	**Total default tariffs**	**31.129**	**2.479**	**33.608**	**166.558**	**15**
21	**Total**	**31.192**	**2.745**	**33.937**	**168.279**	**16**

	Line description	Number of customers (000s)	Average non-household retail revenue per customer £
C	Revenue per customer		
22	**Total**	**168.279**	**16**

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For line definitions see Excel version of the data tables

Pro forma 2H Non-household wastewater – revenues by customer type

	Line description	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of connections (000s)	Average non-household retail revenue per connection £
A	Non-Default tariffs					
1	Total non-default tariffs	0.002	0.000	0.002	0.000	0
B	Default tariffs					
2	6 Up to 50 Ml Sewerage Unmetered	0.723	0.046	0.769	14.805	3
3	7 Up to 50Ml Sewerage Foul Metered	10.504	0.430	10.934	163.927	3
4	8 > 50Ml Sewerage Foul Metered	1.295	0.146	1.441	0.445	327
5	9 SWHD Metered Bands 1 - 7	22.571	2.217	24.788	137.761	16
6	10 SWHD Metered Bands 8 - 15	11.709	0.302	12.011	2.201	137
7	11 Up to 50Ml Sewerage TE Metered	5.124	0.190	5.315	2.774	69
8	12 > 50Ml Sewerage TE Metered	2.527	0.094	2.620	0.134	700
9	13 Foul / SWD Special Agreements	0.137	0.006	0.143	0.004	1407
10	14 Trade Effluent Special Agreements	0.107	0.004	0.111	0.003	1326
11				0.000		0
12				0.000		0
13				0.000		0
14				0.000		0
15				0.000		0
16				0.000		0
17				0.000		0
18				0.000		0
19				0.000		0
20				0.000		0
21				0.000		0
22	**Total default tariffs**	**54.698**	**3.434**	**58.132**	**322.054**	**11**
23	**Total**	**54.699**	**3.434**	**58.133**	**322.054**	**11**

	Line description	Number of customers (000s)	Average non-household retail revenue per customer £
C	Revenue per customer		
24	**Total**	**322.054**	**11**

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For line definitions see Excel version of the data tables

Pro forma 2I Revenue analysis & wholesale control reconciliation

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Household	Non-household	Total
A	**Wholesale charge - water**					
1	Unmeasured	£m	3	331.810	2.321	334.131
2	Measured	£m	3	186.199	182.037	368.236
3	Third party revenue	£m	3	0.000	2.581	2.581
4	**Total**	**£m**	**3**	**518.009**	**186.939**	**704.948**
B	**Wholesale charge - wastewater**					
5	Unmeasured	£m	3	345.592	4.101	349.693
6	Measured	£m	3	197.859	301.671	499.530
7	Third party revenue	£m	3	0.000	0.000	0.000
8	**Total**	**£m**	**3**	**543.451**	**305.772**	**849.223**
9	**Wholesale Total**	**£m**	**3**	**1061.460**	**492.710**	**1554.170**
C	**Retail revenue**					
10	Unmeasured	£m	3	70.766	0.329	71.095
11	Measured	£m	3	51.296	5.828	57.124
12	Other third party revenue	£m	3	0.000	0.003	0.003
13	**Retail total**	**£m**	**3**	**122.062**	**6.160**	**128.222**
D	**Third party revenue - non-price control**					
14	Bulk Supplies - water	£m	3			0.677
15	Bulk Supplies - wastewater	£m	3			0.142
16	Other third party revenue	£m	3			2.699
E	**Principal services - non-price control**					
17	Other appointed revenue	£m	3			3.257
18	**Total appointed revenue**	**£m**	**3**			**1689.167**

		Units	DPs	Water	Wastewater	Total
19	Wholesale revenue governed by price control	£m	3	704.948	849.223	1554.170
20	Grants & contributions	£m	3	18.406	9.610	28.016
21	**Total revenue governed by wholesale price control**	**£m**	**3**	**723.354**	**858.833**	**1582.187**
22	Amount assumed in wholesale determination	£m	3	721.670	856.809	1578.479
23	Adjustment for in-period ODI revenue	£m	3	0.000	0.000	0.000
24	Adjustment for WRFIM	£m	3	0.000	0.000	0.000
25	**Total assumed revenue**	**£m**	**3**	**721.670**	**856.809**	**1578.479**
26	**Difference**	**£m**	**3**	**1.684**	**2.024**	**3.708**

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For line definitions see Excel version of the data tables

2.4) Accounting policies

For the 12 months ended 31 March 2017

The Regulatory Accounts have been prepared in accordance with IFRS, except for the areas of revenue recognition, capitalisation of interest and grants and contributions, as required by Ofwat. Details of all significant accounting policies applied under IFRS are detailed in the United Utilities Water 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 company recognises property, plant and equipment (PPE) expenditure 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 company 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 1.07 '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 is expensed.

Accounting policy note for price control segments

The accounts have been drawn up in accordance with RAG 2 'Guideline for the format and disclosures for the annual performance report'. A significant change from the previous year was the disposal of UUW's non-household retail activities, as described in the introduction on page 75, resulting in these regulatory accounts excluding the majority of non-household costs from 1 June 2016. Within the tables in section two of the regulatory accounts, the water and wastewater price controls are now split out into Water resources, Water Network+, Wastewater Network+ and Bioresources (or Sludge), reflecting the price controls expected from 2020. As the vast majority of the information used to populate these tables was already collected at a more granular upstream service level in the tables in section four of the regulatory accounts the impact is largely presentational, however one substantive impact has been that capital expenditure (and associated depreciation) is now attributed on a principal use basis to each of the four price control units. This has not however resulted in any change to the split of these amounts compared to those that would have been reported for water and wastewater

As noted in our Accounting Policies note to the UUW Limited statutory accounts, management capitalises time and resources incurred by the company's support functions on capital programmes. In accordance with RAG 1.07 our historic cost accounting statements will be in line with IFRS, except for deviations as specifically required by Ofwat (see 'Differences between statutory and RAG definitions' on page 101'). 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 RAG 4.06. 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 RAG 3.09 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.

Charges payable in full

Charges are payable in full in the following circumstances:

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;
- Searches using third party electronic data;
- 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.

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 £71.7 million (household £67.1 million, non-household £4.6 million) in 2016 to £66.7 million (household £62.9 million, non-household £2.8 million) in 2017. The main reason for this is explained below.

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 continued to consistently apply its provisioning model last updated 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. The bad debt provision has reduced by £10.4 million from 31 March 2016 to 31 March 2017 and the household trade debtor balance has reduced by £24.7 million. The reduction in both the bad debt provision and the household debtor balance is a result of our strong focus on improving bad debt and cash collection performance. Our improvement in cash collection performance seen in the prior year led to a cleaner debt book brought forward into the current year and this improved cash performance has been sustained into the current year both resulting in reductions in the bad debt charge and household debtor balance. In addition to this further reductions have arisen from the positive impact of the introduction of billing and collections initiatives including the successful rollout of our award winning Town Action Plan which has significantly increased the number of customers benefiting from our Financial Assistance Schemes.

Non-household

The non-household provision at 31 May 2016 was calculated based on the non-household provision model which considered both the age of debt and payment characteristics. At 31 May 2016, the gross debt was £98.1 million, against which the provision was £18.8 million.

Following the transfer of non-household activities to Water Plus, Water Plus have collected outstanding debt on behalf of UUW and where debt has been determined as non-recoverable, it has been written off to the provision. As 31 March 2017, gross debt of £32.1 million remains against which a provision of £16.5 million is retained. Based on expected future cash receipts from Water Plus, management believe the level of bad debt provision remains appropriate.

Dividend policy

UUW's current dividend policy for the 2015-20 regulatory period is to distribute:

- A base return of 5% on the equity portion of the Regulatory Capital Value (RCV);
- Non-appointed business profit; and
- An amount no greater than cumulative outperformance delivered compared to the assumptions made by Ofwat in the determination for the relevant period.

In addition, there will be a true-up of the previous year's dividend, arising from differences between the forecast and actual equity portion of the RCV.

The board believe this represents an appropriate return taking into consideration:

- The challenges of the 2015/2020 FD;
- The aim to invest an extra £100 million into resilience programmes for the benefit of customers;
- 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

Differences 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.

Grants and contributions

All grants & contributions (G&Cs) recognised in the income statement under IFRS have been reclassified as other income. More specifically this comprises the following three reclassifications:

- Requisitioned mains and requisitioned sewers income from revenue to other income
- Diversion income from opex to other income
- The amortisation of capitalised grants and contributions from opex to other income

The differences in Revenue, Operating profit, Other income and Profit before tax within table 1A can be summarised as follows:

Revenue:		£m
	Revenue recognition	28.361
	Reclassification of ROC income to opex	(5.212)
	G&C – Requisitioned water mains and sewers	(2.745)
	Other	(0.748)
	Total difference	**19.656**

Operating profit:		
	Revenue recognition	5.449
	G&C – Requisitioned water mains and sewers	(2.745)
	G&C – Diversion income	(17.103)
	Amortisation of G&C	(6.656)
	Capitalisation of borrowing costs	3.589
	Reclassification from opex to other income*	(4.059)
	Other	(0.141)
	Total difference	**(21.666)**

*Other income in the statutory accounts is included within operating costs, separately disclosed in the regulatory accounts

Other income:		
	G&C – Requisitioned water mains and sewers	2.745
	G&C – Diversion income	17.103
	Amortisation of G&C	6.656
	Reclassification from opex to other income	4.059
	Other	(0.093)
	Total Differences	**30.470**

Profit before tax:		
	Revenue recognition	5.449
	Capitalisation of borrowing costs	(25.566)
	Other	(0.215)
	Total Differences	**20.332**

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

Total non-current assets:		
	Capitalisation of borrowing costs	(108.620)
	Other	(0.704)
	Total Differences	**(109.324)**

Total current assets:		
	Revenue recognition	22.969
	Other	0.116
	Total Differences	**23.085**

Total non-current liabilities:		
	Differed tax adjustment	17.668
	Total Differences	**17.668**

Tax strategy

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in aggressive or abusive tax avoidance;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are applied at all levels.

In line with the above, we expect to fully adhere to the new HMRC framework for co-operative compliance.

Under the regulatory framework the company operates within, the majority of any benefit from reduced tax payments will typically not be retained by the company but will pass to customers via reduced bills.

In any given year, the company's effective cash tax rate on underlying profits may fluctuate from the standard UK rate due to the available tax deductions on capital investment and pension contributions. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to taxation.

Consistent with the company's general risk management framework, any tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the company and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The company is committed to actively engaging with relevant authorities in order to actively manage any such risk.

The company operates solely in the UK, its customers are based here and all its profits are taxable here.

In addition to corporation tax, the company pays and bears significant further annual economic contributions, totalling around £140 million per annum, in the form of business rates, employer's national insurance contributions, environmental taxes and other regulatory service fees, such as water abstraction charges.

We expect the above details, which apply for both financial years ending 31 March 2017 and 31 March 2018, to fully comply with the new legislative requirements for "Publication of Group Tax Strategies" for UK groups.

Current tax reconciliation

	£m
Profit ordinary activities before tax and fair values as per Table 1A	**376.9**
Multiplied at the standard rate of corporation tax of 20%	75.4
Capital allowances in excess of depreciation	(26.6)
Adjustment in respect of prior years	(8.0)
Net non-deductible expenses	3.6
Other timing differences	(0.3)
Appointed business current tax charge	**44.1**

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	Commentary
Current tax charge allowed in price limits	**44.1**	
Adjustments in respect of prior years	(8.0)	The adjustment arises following the submission of tax computations and mainly relates to net increase in capital allowance claims
Pension deductions	2.6	A £7.6m current tax deduction is credited to equity relating to pensions movements
Net increase in profit before tax and depreciation	16.7	The tax impact of the increase in profit before tax and depreciation compared to the figures per the FD
Financing adjustments	6.9	The actual interest charge is lower than the notional amount assumed for price limit calculations
Net increase in capital allowance / other	(18.2)	The net increase in capital allowance is mainly due to increase capital expenditure
Appointed current tax charge per line 1A. 12	**44.1**	

Long term viability statement

The directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to March 2022.

The long-term planning detailed on pages 22 to 26 of the UUW statutory accounts assesses the company's prospects and establishes its strategy over a long-term time horizon, proving a framework for the company's strategic planning process. The viability statement has been based on the company's strategic planning process which is aligned to the price control period, the company's liquidity position providing headroom to cover its projected financing needs through until mid-2018 and the company's robust capital solvency position with a statutory debt to RCV ratio of around 65 per cent, providing headroom within which to increase medium-term liquidity if required.

UUW has a proven track record of being able to raise new forms of finance in most market conditions, and expects to continue to do so into the future. In addition, the board has considered the protections which exist from the regulatory and economic environment within which it operates. From an economic perspective, given the nature of water and wastewater services, threats to the company's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries. From a regulatory perspective the company benefits from a rolling 25-year licence which, coupled with the price control set by Ofwat, provides a high degree of certainty of cash flows during the current price control period (which runs to March 2020), while between price control periods there exists additional protection afforded by Ofwat's primary legal duty to ensure that water and wastewater companies are able to finance their functions. For these reasons the board considers it appropriate to provide a medium-term viability statement of five years.

The directors have assessed UUW's viability considering the principal risks as set out on pages 41 to 44 of UUW's statutory accounts, and its ability to absorb a number of severe but reasonable scenarios. These include political and regulatory risks, as well as the potential for a restriction to the availability of financing resulting from a global capital markets crisis. The viability assessment has considered the potential impacts of these risks on the company's business model, future performance, solvency and liquidity over the period. As well as the protections which exist from the regulatory environment within which it operates, a number of mitigating actions are available in the extreme scenarios considered, including the raising of new finance, capital programme deferral, the close out of derivative asset positions and the restriction of dividend payments. These actions provide the company with significant scope to improve its liquidity and capital position to further absorb such threats.

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph on page 81 of UUW's statutory accounts.

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

The following loans from associated companies existed at 31 March 2017:

	£m	Interest rate	Repayment date
United Utilities PLC: overdraft facility	14.588	0.5%+LIBOR	On demand
United Utilities: £90.0 million loan	35.380	0.175%+LIBOR	On 18 months-notice
United Utilities: £130.0 million loan	130.000	0.175%+LIBOR	June 2018
United Utilities £205.0 million loan	205.520	0.175%+LIBOR	February 2019
United Utilities: £300.0 million loan	200.000	0.175%+LIBOR	Amortising until August 2020
United Utilities Water Finance PLC: GBP 0.013% RPI Bond 2025	25.877	0.013%+RPI	April 2025
United Utilities Water Finance PLC: EUR Notes 1.129% 2027	43.582	1.129%	April 2027
United Utilities PLC: $400.0 million bond	375.519	6.875%	August 2028
United Utilities Water Finance PLC: GBP 0.01% RPI bond 2028	22.300	0.01%+RPI	September 2028
United Utilities Water Finance PLC: GBP 0.178% RPI bond 2030	20.00	0.178%+RPI	April 2030
United Utilities Water Finance PLC: EUR Notes 2.058% 2030	26.327	2.058%	October 2030
United Utilities Water Finance PLC: HKD Notes 2.9% 2031	56.374	2.9%	June 2031
United Utilities Water Finance PLC: 1.641% 2031	24.624	1.641%	June 2031
United Utilities Water Finance PLC: 0.245% CPI bond 2031	20.000	0.245%+CPI	December 2031
United Utilities Water Finance PLC: 0.01% RPI bond 2031	41.267	0.01%+RPI	December 2031
United Utilities Water Finance PLC: GBP 0.01% bond 2036	30.967	0.01%+RPI	September 2036
United Utilities Water Finance PLC: 0.379% CPI bond 2036	19.982	0.379%+CPI	December 2036
United Utilities Water Finance PLC: 0.01% RPI bond 2036	31.519	0.01%+RPI	December 2036
United Utilities Water Finance PLC: GBP 0.093% bond 2037	59.563	0.093%+RPI	February 2037
United Utilities North West Limited: Preference shares	130.00	7.0%	October 2099

The following loans to associated companies existed at 31 March 2017:

	£m	Interest rate	Repayment date
United Utilities PLC: £40.0m loan	40.000	0.5%+LIBOR	On demand
Water Plus Group Ltd: £100.0m revolving credit facility*	100.000	Credit margin +LIBOR	September 2019

*This revolving credit facility is guaranteed by United Utilities PLC

Dividends paid to associated undertakings

During 2016/17, interim dividends were paid to the parent company, United Utilities North West Limited, totalling £229.680 million (2016: £186.100 million). No final dividend has been recommended for 2016/17 (2016: £nil).

In line with the dividend policy, dividends paid of £229.680m comprised:

- £188.200 million base return of 5% of the equity portion of the Regulatory Capital Value:
- £5.400 million estimated non-appointed profits for 2016/17
- £35.380 million distributed outperformance in relation to 2015/16 and 2016/17
- £0.700 million true-up of 2015/16 base dividend

In addition, the transfer of the Non-household business to United Utilities North West Limited gives rise to a dividend of £18.360 million which represents the value of the assets transferred.

Guarantees by the appointee

A financing subsidiary of United Utilities Water Limited (UUW), United Utilities Water Finance PLC (UUWF), was set up in 2014/15 to issue new listed debt on behalf of UUW, following UUW's re-registration as a private limited company. Debt instruments issued by UUWF (as listed in borrowing and loans above) have been guaranteed by UUW.

Transfer of assets by or to the appointee

UUW transferred its non-household retail activities to its parent, United Utilities North West Limited by the way of a disposal of its customer base and billing systems. This represented a dividend distribution of £18.360 million from UUW (included within total dividends of £248.040m shown in Table 1A).

There were no other 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	2017 Turnover of associated £m	Terms of supply	2017 Total value of goods, work or services £m
Functions	UU PLC	6.007	Employment costs	16.161
Share-based payments recharge	UU Group PLC	-	Employment costs	3.272
Accommodation	UU Property Services	15.620	Contract price	0.114
Purchase of energy	UU Renewable Energy	3.316	Contract price	1.896
Estate charges	Lingley Mere Management Company Ltd	0.736	Contract price	0.692
				22.135

Services supplied by the company to associated companies

Nature of transaction	Company	2017 Turnover of associated £m	Terms of supply	2017 Total value of goods, work or services £m
Employment costs and travel costs	Water Plus Ltd	453.415	Recharge of costs	4.040
Employment costs and travel costs	UU Property Services	15.620	Recharge of costs	0.419
Employment costs and travel costs	UU Water Sales Ltd	4.679	Recharge of costs	0.287
Employment costs and travel costs	UU PLC	6.007	Recharge of costs	1.016
Employment costs and travel costs	UU International Ltd	0.885	Recharge of costs	0.526
Employment costs and travel costs	UU Total Solutions	1.997	Recharge of costs	0.505
Employment costs and travel costs	UU Renewable Energy	3.316	Recharge of costs	1.143
Employment costs and travel costs	UU Utility Solutions (Industrial) Ltd	-	Recharge of costs	0.044
Wholesale water/wastewater charges	Water Plus Ltd	453.415	Contract price	401.959
Wholesale water/wastewater charges	Water Plus Select Ltd	335.340	Contract price	0.638
Wholesale water/wastewater charges	UU PLC	6.007	Contract price	5.638
Wholesale water/wastewater charges	UU North West Ltd	1.502	Contract price	1.409
Wholesale water/wastewater charges	UU Water Sales Ltd	4.679	Contract price	1.409
Programme and TSA charges	Water Plus Ltd	453.415	Recharge of costs	15.019
Business development costs	UU PLC	6.007	Recharge of costs	0.325
Wastewater treatment services	UUW Ltd (non appointed)	1.811	Contract price	0.002
Accommodation	UU Property Services	15.620	Recharge of costs	0.125
Property searches	UUW Ltd (non appointed)	4.099	Contract price	1.969
				436.473

Statement of directors' remuneration and standards of performance

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

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 2017, 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 2016/17	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: £727,000 from 1 September 2016 Russ Houlden: £459,000 from 1 September 2016 Steve Fraser: £320,000 from 1 July 2016	None.
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, opportunity to join the ShareBuy scheme, travel and communication costs.	See table on executive directors' remuneration 2016/17 below	None.

Element: purpose and link to strategy	Operation	Opportunity 2016/17	Performance measures
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 company 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. • Recovery and withholding 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 2016/17 annual bonus below.
Long Term Plan			
To incentivise long term value creation and alignment with longer-term returns to shareholders.	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. Recovery and withholding provisions apply.	Steve Mogford and Russ Houlden: 130% of salary Steve Fraser: 70% of salary	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.

Element: purpose and link to strategy	Operation	Opportunity 2016/17	Performance measures
Pension			
To provide a broadly mid-market level of retirement benefits.	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.	All executive directors elected to receive a cash allowance of 22% of base salary.	None.

Non-executive directors

As outlined in the UUG Annual Report and Accounts, 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 2016/17

	Base salary £'000	Benefits £'000	Bonus (1) £'000	Long-term incentives (2) £'000	Cash allowance in lieu of pension £'000	Total £'000
Steve Mogford	721	28	785	617	159	2,310
Russ Houlden	455	26	492	390	100	1,463
Steve Fraser	318	17	246	146	70	797

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 £317,000 during the year ended 31 March 2017 (2016: £299,000) was charged to other companies in the United Utilities group in relation to the provision of executive director services (£273,000) and non-executive director services (£44,000).

2016/17 annual bonus

Measure	Steve Mogford Max. %	Steve Mogford Actual %	Russ Houlden Max. %	Russ Houlden Actual %	Steve Fraser Max. %	Steve Fraser Actual %
Underlying operating profit	30.0	24.4	30.0	24.4	20.0	16.4
Customer service in year						
Service Incentive Mechanism – Qualitative	12.0	12.0	12.0	12.0	12.0	12.0
Service Incentive Mechanism – Quantitative	4.0	4.0	4.0	4.0	4.0	4.0
Maintaining and enhancing services for customers						
Wholesale outcome delivery incentive composite	20.0	16.7	20.0	16.7	20.0	16.7
Time, cost and quality of capital programme (TCQi)	20.0	13.6	20.0	13.6	20.0	13.6
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**	**83.7**	**100.0**	**83.2**	**100.0**	**85.7**
Total as % base salary	**130.0**	**108.8**	**130.0**	**108.2**	**90.0**	**77.1**
Total £'000		**785**		**492**		**246**

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 shares previously granted to UUW Limited executive directors which vested in 2016/17, or whose performance period ended in 2016/17, are as follows:

Director	Number of shares vesting 2014 LTP[1]	Value of shares vesting £'000 2014 LTP[2]
Steve Mogford	65,296	617
Russ Houlden	41,216	390
Steve Fraser	15,464	146

[1] The 2014 Long Term Plan (LTP) awards were granted in July 2014. The performance period started on 1 April 2014 and ended on 31 March 2017. 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 2017). The number and value of the vested 2014 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 2019, following an additional two year holding period. The awards accrue dividend equivalents.

[2] The value of the 2014 LTP awards has been calculated by multiplying the number of shares vesting by the average share price over the three month period 1 January 2017 to 31 March 2017 (946 pence per share)

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%	33.3% 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 2017 versus 17 other water companies using Ofwat's SIM combined score	33.3%	17.5% out of 33.3%
Total vesting		**59.1%**

Directors' remuneration 2017/18

In addition to the normal annual salary and fee review, there will be some changes to the 2017/18 bonus scheme and long term incentives granted in 2017.

The bonus will operate in a broadly similar way with the exception of the Dow Jones measure (currently representing a maximum of 4 per cent of executive director's bonuses) will be removed from the bonus scorecard and the weighting redistributed to the outcome delivery incentive (ODI) measure.

In line with the revised remuneration policy, recovery and withholding provisions for the annual bonus scheme and long term incentives will be made more robust on an ongoing basis. For the long term incentives granted in 2017 there will also be some changes made to the customer service measure to ensure we are measuring performance appropriately.

UUG 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 2017 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.

Approved by the board and signed on its behalf by:

____

Russ Houlden

Chief Financial Officer

9 June 2017

CERTIFICATE UNDER PARAGRAPH 3.1 OF CONDITION K OF THE APPOINTMENTS

As required in paragraph 3.1 of Condition K of the Licence, the directors state that as at 31 March 2017, 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.

Approved by the board and signed on its behalf by:

____

Russ Houlden
Chief Financial Officer
9 June 2017

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 sections 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
Pro forma 3B	Sub-measure performance table
Pro forma 3C	AIM table
Pro forma 3D	SIM table
Section 4 Additional regulatory information	
Pro forma 4A	Non-financial information
Pro forma 4B	Totex analysis
Pro forma 4C	Impact of AMP performance to date on RCV
Pro forma 4D	Totex analysis – wholesale water
Pro forma 4E	Totex analysis – wholesale wastewater
Pro forma 4F	Operating cost analysis – household retail
Pro forma 4G	Wholesale current cost financial performance
Pro forma 4H	Financial metrics
Pro forma 4I	Financial derivatives

Pro forma tables Section 3 Performance summary

Pro forma 3A Outcome performance table

Row	Unique ID	Performance commitment	Unit	Unit description	Decimal places	2015-16 performance level - actual	2016-17 performance level - actual	2016-17 CPL met?	2016-17 reward or penalty (in-period ODIs)	2016-17 reward or penalty (in-period ODIs) £m (4 DPs)	2016-17 notional reward or penalty accrued	2016-17 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
1	PR14UUWSW_A1	A1: Drinking Water Safety Plan risk score	score	Drinking Water Safety Plan (DWSP) risk score	1	4.3	4.3	Yes	-	0.0000	-	0.0000	-	0.0000
2	PR14UUWSW_A2	A2: Water quality events DWI category 3 or above	nr	No. water quality events DWI cat 3 or above	0	35	22	No	-	0.0000	Penalty	-0.5960	Penalty	-1.3000
3	PR14UUWSW_A3	A3: Water Quality Service Index	score	Water Quality Service Index (UU bespoke)	3	120.4653572	116.923	No	-	0.0000	Penalty	-3.6190	Penalty	-8.6000
4	PR14UUWSW_B1	B1: Average minutes supply lost per property (a year)	time	Mins:secs supply lost per property per year	mins:secs	16:42	13:33	Yes	-	0.0000	ward deadband	0.0000	ward deadband	0.0000
5	PR14UUWSW_B2	B2: Reliable water service index	score	Reliable water service index (UU bespoke)	3	16.44725922	77.840	No	-	0.0000	Penalty	-7.9740	Penalty	-15.9480
6	PR14UUWSW_B3	B3: Security of supply index (SoSI)	score	Security of Supply Index (SOSI)	3	100	100.000	Yes	-	0.0000	-	0.0000	-	0.0000
7	PR14UUWSW_B4	B4: Total leakage at or below target	nr	Megalitres per day (Ml/d) variance from target	2	10.8	23.43	Yes	-	0.0000	Reward	9.1479	Reward	14.0000
8	PR14UUWSW_B5	B5: Resilience of impounding reservoirs	nr	Aggregate (cumulative) reduction in risk	2	161.61	164.25	Yes	-	0.0000	-	0.0000	-	0.0000
9	PR14UUWSW_B6	B6: Thirlmere transfer into West Cumbria	%	% project complete based on earned value tied to milestones	0	2	5	Yes	-	0.0000	-	0.0000	-	0.0000
10	PR14UUWSW_C1	C1: Contribution to rivers improved - water programme (NEP schemes and abstraction changes at 4 AIM sites)	nr	Kilometres (km) of river improved (cumulative)	1	36.84	82.6	Yes	-	0.0000	Reward	0.1848	Reward	0.6000
11	PR14UUWSW_D1	D1: Delivering our commitments to developers, local authorities and highway authorities	%	% of jobs completed within response times	0	95.19	97	Yes	-	0.0000	-	0.0000	-	0.0000
12	PR14UUWSW_E1	E1: Number of free water meters installed	nr	No. of free water meters installed per year	0	27197	32,447	No	-	0.0000	-	0.0000	-	0.0000
13	PR14UUWSWW_S-A1	S-A1: Private sewers service index	score	Private sewers service index (UU bespoke)	2	91.69	91.90	Yes	-	0.0000	Reward	7.3500	Reward	14.8000
14	PR14UUWSWW_S-A2	S-A2: Wastewater network performance index	score	Wastewater network performance index (UU bespoke)	2	90.95	89.47	Yes	-	0.0000	-	0.0000	-	0.0000
15	PR14UUWSWW_S-B1	S-B1: Future flood risk	nr	No. of properties at risk	0	16472	16,418	Yes	-	0.0000	-	0.0000	-	0.0000
16	PR14UUWSWW_S-B2	S-B2: Sewer flooding index	score	Sewer flooding index (UU bespoke)	1	100.8	94.4	No	-	0.0000	Penalty	-1.4840	Penalty	-28.8000
17	PR14UUWSWW_S-C1	S-C1: Contribution to bathing waters improved (includes NEP phase 3&4 bathing water intermittent discharge projects)	nr	Bathing water equivalent (BWE)	2	0.47	0.66	Yes	-	0.0000	-	0.0000	-	0.0000
18	PR14UUWSWW_S-D1	S-D1: Protecting rivers from deterioration due to population growth (includes Davyhulme non-delivery penalty)	nr	Kilometers (km) rivers protected from deterioration	1	48	48.0	Yes	-	0.0000	-	0.0000	-	0.0000
19	PR14UUWSWW_S-D2	S-D2: Maintaining our wastewater treatment works (includes Oldham and Royton WwTWs special cost factor claims)	score	Maintaining WwTWs index (UU bespoke)	4	91.4847	58.7082	Yes	-	0.0000	-	0.0000	Penalty	-13.0000
20	PR14UUWSWW_S-D3	S-D3: Contribution to rivers improved - wastewater programme (includes Oldham, Royton and Windermere)	nr	Kilometres (km) of river improved (cumulative)	2	0.75	45.62	Yes	-	0.0000	Reward	0.4310	Reward	0.7000
21	PR14UUWSWW_S-D4a	S-D4a: Wastewater serious (category 1 and 2) pollution incidents	nr	No. of pollution incidents (cats 1 and 2)	0	4	2	Yes	-	0.0000	-	0.0000	-	0.0000
22	PR14UUWSWW_S-D4b	S-D4b: Wastewater category 3 pollution incidents	nr	No. of pollution incidents (cat 3)	0	136	150	Yes	-	0.0000	Reward	3.2780	Reward	16.4000
23	PR14UUWSWW_S-D5	S-D5: Satisfactory sludge disposal	%	% satisfactory sludge disposal compliance	2	100	100.00	Yes	-	0.0000	-	0.0000	-	0.0000
24	PR14UUHHR_A-1	A-1: Service incentive mechanism (SIM)	text	Service incentive mechanism (SIM) score ranking	na	81.55	85.44	-	-	0.0000	-	0.0000	-	0.0000
25	PR14UUHHR_R-A2	R-A2: Customer experience programme	£m	£ million cumulative depreciation	3	0.001	0.363	No	-	0.0000	-	0.0000	-	0.0000
26	PR14UUHHR_B1	B1: Customers saying that we offer value for money	%	% customer satisfaction	0	50	52	Yes	-	0.0000	-	0.0000	-	0.0000
27	PR14UUHHR_B2	B2: Per household consumption	nr	Litres per household per day (l/hh/d)	0	303	305	No	-	0.0000	-	0.0000	-	0.0000

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Pro forma 3B Sub-measure performance table

Row	Unique ID	PC/sub-measure ID	PC / sub-measure	Unit	Decimal places	2015-16 performance level - actual	2016-17 performance level - actual	2016-17 CPL met?
1	PR14UUWSW_A3	00	A3: Water Quality Service Index	score	3	120.465	116.923	No
2	PR14UUWSW_A3	01	WTW coliform non-compliance (%)	%	2	0.06	0.01	Yes
3	PR14UUWSW_A3	02	SR integrity index	%	2	99.98	99.98	Yes
4	PR14UUWSW_A3	03	No. of WTW turbidity fails	nr	0	1	2	Yes
5	PR14UUWSW_A3	04	Mean Zonal Compliance (MZC)	%	2	99.96	99.96	Yes
6	PR14UUWSW_A3	05	Distribution Maintenance Index (%)	%	2	99.89	99.85	No
7	PR14UUWSW_A3	06	No. unwanted customer contacts for water quality (per year)	nr	0	9171	9,605	No
8	PR14UUWSW_B2	00	B2: Reliable water service index	score	3	16.447	77.840	No
9	PR14UUWSW_B2	01	Total bursts (nr/annum)	nr	0	4785	4,590	Yes
10	PR14UUWSW_B2	02	Interruptions >12hours (nr of properties/total nr of properties)	nr	0	11431	3,759	No
11	PR14UUWSW_B2	03	Pressure (nr of properties on DG2 register/ total number of properties)	nr	0	262	345	No
12	PR14UUWSW_B2	04	Customer contacts for water availability (contacts/annum)	nr	0	47011	43,740	Yes
13	PR14UUWSWW_S-A1	00	S-A1: Private sewers service index	score	2	91.69	91.90	Yes
14	PR14UUWSWW_S-A1	01	Blockages	nr	0	13906	14,031	Yes
15	PR14UUWSWW_S-A1	02	Collapses	nr	0	361	391	Yes
16	PR14UUWSWW_S-A1	03	Pollution incidents	nr	0	5	1	Yes
17	PR14UUWSWW_S-A1	04	Properties flooded internally	nr	0	418	415	No
18	PR14UUWSWW_S-A1	05	Area flooded externally	nr	0	4605	4,599	No
19	PR14UUWSWW_S-A2	00	S-A2: Wastewater network performance index	score	2	90.95	89.47	Yes
20	PR14UUWSWW_S-A2	01	Blockages	nr	0	7473	7,469	Yes
21	PR14UUWSWW_S-A2	02	Collapses	nr	0	261	268	Yes
22	PR14UUWSWW_S-A2	03	Rising main bursts	nr	0	51	46	Yes
23	PR14UUWSWW_S-A2	04	Equipment failures	nr	0	2704	2,322	Yes
24	PR14UUWSWW_S-B2	00	S-B2: Sewer flooding index	score	1	100.8	94.4	No
25	PR14UUWSWW_S-B2	01	Properties flooded due to other causes	nr	0	839	794	No
26	PR14UUWSWW_S-B2	02	Properties flooded due to hydraulic overload	nr	0	147	147	No
27	PR14UUWSWW_S-B2	03	Areas flooded due to other causes	nr	0	3391	3,274	Yes
28	PR14UUWSWW_S-B2	04	Areas flooded due to hydraulic overload	nr	0	455	215	Yes
29	PR14UUWSWW_S-B2	05	Incidents of repeat flooding	nr	0	377	362	No
30	PR14UUWSWW_S-D2	00	S-D2: Maintaining our wastewater treatment works	score	4	91.485	58.7082	Yes
31	PR14UUWSWW_S-D2	01	WwTWs failing EA permit - small (size band 1-4)	score	4	0	2.0000	No
32	PR14UUWSWW_S-D2	02	WwTWs failing EA permit - medium (size band 5)	score	4	2	0.0000	Yes
33	PR14UUWSWW_S-D2	03	WwTWs failing EA permit - large (size band 6a)	score	4	2	3.0000	Yes
34	PR14UUWSWW_S-D2	04	WwTWs failing EA permit - large (size band 6b)	score	4	1	0.0000	Yes
35	PR14UUWSWW_S-D2	05	WwTWs at high risk of failing EA permit - small (size band 1-4)	score	4	0.666666667	0.1159	Yes
36	PR14UUWSWW_S-D2	06	WwTWs at high risk of failing EA permit - medium (size band 5)	score	4	0	0.0341	Yes
37	PR14UUWSWW_S-D2	07	WwTWs at high risk of failing EA permit - large (size band 6)	score	4	0	0.0000	Yes
38	PR14UUWSWW_S-D2	08	WwTWs at medium risk of failing EA permit - small (size band 1-4)	score	4	8.5	0.3104	Yes
39	PR14UUWSWW_S-D2	09	WwTWs at medium risk of failing EA permit - medium (size band 5)	score	4	0.333333333	0.0410	Yes
40	PR14UUWSWW_S-D2	10	WwTWs at medium risk of failing EA permit - large (size band 6)	score	4	2.25	0.8874	Yes

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Pro forma 3C AIM table

Row	Abstraction site	Decimal places	2016-17 AIM performance [Ml]	2016-17 normalised AIM performance	Cumulative AIM performance 2016-17 [Ml]	Cumulative normalised AIM performance 2016-17	Contextual information relating to AIM performance
1	Aughertree Springs (Quarry Hill system, West Cumbria Resource Zone)	0	0	0	0	0	River flows did not fall to the AIM low flow threshold during FY2017
2	River Calder (Barnacre system, Integrated Resource Zone)	0	0	0	0	0	River flows did not fall to the AIM low flow threshold during FY2017
3	Ennerdale (West Cumbria Resource Zone)	0	0	0	0	0	River flows did not fall to the AIM low flow threshold during FY2017
4	Old Water, River Gelt (Castle Carrock system, Carlisle Resource Zone)	0	0	0	0	0	River flows did not fall to the AIM low flow threshold during FY2017
Total		**0**	**0**	**0**	**0**	**0**	

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For line definitions see Excel version of the data tables

Pro forma 3D SIM table

Row	Line description	Units	Decimal places	Score
A	Qualitative performance			
1	1st survey score	score	2	4.33
2	2nd survey score	score	2	4.42
3	3rd survey score	score	2	4.40
4	4th survey score	score	2	4.56
5	**Qualitative SIM score (out of 75)**	**score**	**2**	**64.13**
B	Quantitative performance			
6	Quantitative composite score	score	2	76.60
7	**Quantitative SIM score (out of 25)**	**calc**	**2**	**21.17**
C	SIM score			
8	**Total annual SIM score (out of 100)**	**calc**	**0**	**85**

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Pro forma tables Section 4 Additional regulatory information

Pro forma 4A Non-financial information

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Current year	
				Unmeasured	Measured
	Retail				
A	**Household**				
1	Number of void households	000s	3	131.286	60.997
2	Per capita consumption (excluding supply pipe leakage) l/h/d	l/h/d	2	151.64	117.48

	Line description	Units	DPs	Water	Wastewater
	Wholesale				
B	**Volume (Ml/d)**				
3	Bulk supply export	Ml/d	3	11.168	0.323
4	Bulk supply import	Ml/d	3	0.660	0.000
5	Distribution input	Ml/d	3	1,730.593	

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For line definitions see Excel version of the data tables

Pro forma 4B Totex analysis

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Current year Water	Current year Wastewater	Cumulative 2015-20 Water	Cumulative 2015-20 Wastewater
A	**Actual totex**						
1	Actual totex	£m	3	597.107	696.552	1134.229	1409.758
B	**Items excluded from the menu**						
2	Third party costs	£m	3	2.826	0.000	5.248	0.000
3	Pension deficit recovery payments	£m	3	16.042	15.004	28.017	26.205
4	Other 'Rule book' adjustments	£m	3	3.027	-0.636	26.800	2.675
5	**Total items excluded from the menu**	£m	3	**21.894**	**14.369**	**60.065**	**28.880**
C	**Transition expenditure**						
6	Transition expenditure	£m	3	0.000	0.000	10.794	16.972
D	**Adjusted Actual totex**						
7	**Adjusted Actual totex**	£m	3	**575.213**	**682.183**	**1084.958**	**1397.849**
8	Adjusted Actual totex base year prices	£m	3	531.112	629.880	1,011.859	1,304.835
E	**Allowed totex**						
9	Allowed totex based on final menu choice – base year prices	£m	3	469.700	573.900	917.800	1127.700

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For line definitions see Excel version of the data tables

Pro forma 4C Impact of AMP performance to date on RCV

	Line description	Units	DPs	Water	Wastewater
1	RCV determined at FD at 31 March	£m	3	3823.784	6741.674
2	RCV element of cumulative totex over/underspend so far in the price control period	£m	3	35.523	96.236
3	Adjustment for ODI rewards or penalties	£m	3	0.000	22.263
4	**Projected 'shadow' RCV**	£m	3	**3859.307**	**6860.173**

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For line definitions see Excel version of the data tables

Pro forma 4D Totex analysis – wholesale water

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Water resources		Network+				Total
				Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
A	**Operating expenditure**									
1	Power	£m	3	0.000	4.619	1.241	0.135	14.997	9.013	30.004
2	Income treated as negative expenditure	£m	3	0.000	-0.007	-0.125	0.000	-0.052	0.000	-0.184
3	Abstraction charges	£m	3	14.765	0.000	0.000	0.000	0.000	0.000	14.765
4	Bulk supply	£m	3	0.000	0.000	0.000	0.000	0.000	0.185	0.185
5	Other operating expenditure	£m	3	0.000	18.393	8.798	0.510	63.590	146.818	238.110
6	Local authority and Cumulo rates	£m	3	0.000	17.297	2.714	0.526	7.236	35.071	62.843
7	**Total operating expenditure excluding third party services**	**£m**	**3**	**14.765**	**40.302**	**12.628**	**1.171**	**85.771**	**191.087**	**345.724**
8	Third party services	£m	3	0.000	1.011	1.381	0.000	0.000	0.434	2.826
9	**Total operating expenditure**	**£m**	**3**	**14.765**	**41.312**	**14.008**	**1.171**	**85.771**	**191.521**	**348.549**
B	**Capital Expenditure**									
10	Maintaining the long term capability of the assets - infra	£m	3	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	3	0.000	2.367	1.935	0.000	106.493	50.881	161.676
12	Other capital expenditure - infra	£m	3	0.000	2.001	0.001	0.000	0.000	66.129	68.131
13	Other capital expenditure - non-infra	£m	3	0.000	3.434	0.082	0.000	8.535	19.333	31.383
14	**Total gross capital expenditure (excluding third party)**	**£m**	**3**	**0.000**	**7.802**	**2.017**	**0.000**	**115.028**	**136.343**	**261.190**
15	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16	**Total gross capital expenditure**	**£m**	**3**	**0.000**	**7.802**	**2.017**	**0.000**	**115.028**	**136.343**	**261.190**
17	Grants and contributions	£m	3	0.000	0.010	0.000	0.000	0.000	28.664	28.674
18	**Totex**	**£m**	**3**	**14.765**	**49.104**	**16.026**	**1.171**	**200.798**	**299.200**	**581.065**
C	**Cash Expenditure**									
19	Pension deficit recovery payments	£m	3	0.000	1.470	1.285	0.053	7.616	5.618	16.042
20	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
21	**Totex including cash items**	**£m**	**3**	**14.765**	**50.574**	**17.311**	**1.224**	**208.414**	**304.818**	**597.107**
D	**Unit cost information (operating expenditure)**									
22	Licenced volume available	Ml	3	1383581						
23	Volume abstracted	Ml	3		825694					
24	Volume transported	Ml	3			684929				
25	Average volume stored	Ml	3				556			
26	Distribution input volume - water treatment	Ml	3					631666		
27	Distribution input volume - treated water	Ml	3						631666	
28	**Unit cost**	**£/Ml**	**3**	**10.672**	**50.034**	**20.452**	**2105.326**	**135.785**	**303.200**	
29	Population	000s	3	7150.154	7150.154	7150.154	7150.154	7150.154	7150.154	
30	**Unit cost**	**£/pop**	**3**	**2.065**	**5.778**	**1.959**	**0.164**	**11.996**	**26.786**	

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For line definitions see Excel version of the data tables

Annual Performance Report 2017

Regulatory Accounts

Pro forma 4E Totex analysis – wholesale wastewater

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Network+ Sewage collection			Network + Sewage treatment		Sludge			Total
				Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
A	**Operating expenditure**											
1	Power	£m	3	2.422	2.977	1.187	38.052	2.100	0.010	-5.957	0.812	41.604
2	Income treated as negative expenditure	£m	3	-0.008	-0.010	-0.004	-0.137	0.000	0.000	-6.153	0.000	-6.312
3	Discharge consents	£m	3	0.525	0.653	0.260	3.853	0.000	0.000	0.327	0.000	5.619
4	Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
5	Other operating expenditure	£m	3	40.799	43.726	17.388	69.333	0.195	6.566	25.111	7.851	210.969
6	Local authority rates and Cumulo rates	£m	3	0.000	0.000	0.000	20.955	0.208	0.000	6.221	0.719	28.103
7	**Total operating expenditure excluding third party services**	**£m**	**3**	**43.739**	**47.347**	**18.832**	**132.056**	**2.503**	**6.576**	**19.549**	**9.382**	**279.983**
8	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9	**Total operating expenditure**	**£m**	**3**	**43.739**	**47.347**	**18.832**	**132.056**	**2.503**	**6.576**	**19.549**	**9.382**	**279.983**
B	**Capital Expenditure**											
10	Maintaining the long term capability of the assets - infra	£m	3	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	3	40.911	0.000	0.000	190.080	0.000	0.000	21.272	0.951	253.214
12	Other capital expenditure - infra	£m	3	66.068	0.065	0.026	0.000	0.000	0.410	0.000	0.000	66.569
13	Other capital expenditure - non-infra	£m	3	10.652	0.000	0.000	82.966	0.000	0.000	8.361	0.000	101.979
14	**Total gross capital expenditure (excluding third party services)**	**£m**	**3**	**117.632**	**0.065**	**0.026**	**273.046**	**0.000**	**0.410**	**29.633**	**0.951**	**421.763**
15	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
16	**Total gross capital expenditure**	**£m**	**3**	**117.632**	**0.065**	**0.026**	**273.046**	**0.000**	**0.410**	**29.633**	**0.951**	**421.763**
17	Grants and contributions	£m	3	7.109	8.843	3.525	0.721	0.000	0.000	0.000	0.000	20.199
18	**Totex**	**£m**	**3**	**154.261**	**38.568**	**15.332**	**404.381**	**2.503**	**6.987**	**49.182**	**10.333**	**681.547**
C	**Cash Expenditure**											
19	Pension deficit recovery payments	£m	3	1.395	1.322	0.527	7.913	0.000	0.743	2.572	0.532	15.004
20	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
21	**Totex including cash items**	**£m**	**3**	**155.656**	**39.891**	**15.859**	**412.294**	**2.503**	**7.730**	**51.754**	**10.865**	**696.552**
D	**Unit cost information (operating expenditure)**											
22	Volume collected - foul	Ml	3	422595								
23	Volume collected - surface water drainage	Ml	3		522158							
24	Volume collected - highway drainage	Ml	3			208133						
25	Biochemical Oxygen Demand (BOD) - sewage treatment and disposal	Tonnes	3				198335					
26	Biochemical Oxygen Demand (BOD) - sludge liquor treatment	Tonnes	3					12485				
27	Volume transported - sludge transport	m3	3						1403568			
28	Dried solid mass treated - sludge treatment	ttds	3							189		
29	Dried solid mass disposed - sludge disposal	ttds	3								91	
30	**Unit cost**	**£/unit**	**3**	**103.500**	**90.675**	**90.480**	**665.823**	**200.472**	**4.686**	**103249.147**	**103476.649**	
31	Population	000s	3	7499.372	7499.372	7499.372	7499.372	7499.372	7499.372	7499.372	7499.372	
32	**Unit cost**	**£/pop**	**3**	**5.832**	**6.313**	**2.511**	**17.609**	**0.334**	**0.877**	**2.607**	**1.251**	

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For line definitions see Excel version of the data tables

Annual Performance Report 2017

Regulatory Accounts

Pro forma 4F Operating cost analysis – household retail

For the 12 months ended 31 March 2017

	Line description	Units	DPs	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	3	0.234	0.122	15.997	16.353	0.200	0.002	12.631	12.832	29.186
2	Debt management	£m	3	0.017	0.015	9.004	9.036	0.016	0.000	3.073	3.088	12.124
3	Doubtful debts	£m	3	0.094	0.059	31.825	31.978	0.089	0.000	19.312	19.401	51.379
4	Meter reading	£m	3					0.104	0.178	4.574	4.856	4.856
5	Other operating expenditure	£m	3	0.169	0.076	5.687	5.932	0.102	0.135	3.814	4.051	9.982
6	**Total operating expenditure excluding third party services**	**£m**	**3**	**0.514**	**0.272**	**62.513**	**63.299**	**0.510**	**0.315**	**43.403**	**44.228**	**107.527**
7	Third party services operating expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
8	**Total operating expenditure**	**£m**	**3**	**0.514**	**0.272**	**62.513**	**63.299**	**0.510**	**0.315**	**43.403**	**44.228**	**107.527**
9	Depreciation - tangible fixed assets	£m	3	0.027	0.015	1.057	1.099	0.016	0.026	0.718	0.760	1.859
10	Amortisation - intangible fixed assets	£m	3	0.064	0.036	2.950	3.051	0.040	0.056	1.917	2.013	5.064
11	**Total operating costs**	**£m**	**3**	**0.605**	**0.324**	**66.520**	**67.449**	**0.566**	**0.397**	**46.039**	**47.002**	**114.451**
B	**Demand-side efficiency and customer-side leaks analysis - Household**											
12	Demand-side water efficiency - gross expenditure	£m	3									1.238
13	Demand-side water efficiency - expenditure funded by wholesale	£m	3									0.302
14	**Demand-side water efficiency - net retail expenditure**	**£m**	**3**									**0.937**
15	Customer-side leak repairs - gross expenditure	£m	3									0.922
16	Customer-side leak repairs - expenditure funded by wholesale	£m	3									0.000
17	**Customer-side leak repairs - net retail expenditure**	**£m**	**3**									**0.922**

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For line definitions see Excel version of the data tables

Pro forma 4G Wholesale current cost financial performance

For the 12 months ended 31 March 2017

	Line description	Units	DPs	Water	Wastewater	Total
1	Revenue	£m	3	708.675	852.251	1560.926
2	Operating expenditure	£m	3	-348.549	-279.983	-628.532
3	Capital maintenance charges	£m	3	-150.523	-306.477	-457.000
4	Other operating income	£m	3	0.136	-4.138	-4.002
5	**Current cost operating profit**	**£m**	**3**	**209.739**	**261.654**	**471.393**
6	Other income	£m	3	16.672	11.551	28.223
7	Interest income	£m	3	3.879	6.806	10.685
8	Interest expense	£m	3	-87.962	-154.358	-242.320
9	Other interest expense	£m	3	0.007	0.013	0.020
10	**Current cost profit before tax and fair value movements**	**£m**	**3**	**142.335**	**125.665**	**268.000**
11	Fair value gains/(losses) on financial instruments	£m	3	1.878	3.297	5.175
12	**Current cost profit before tax**	**£m**	**3**	**144.213**	**128.962**	**273.175**

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For line definitions see Excel version of the data tables

Pro forma 4H Financial Metrics

For the 12 months ended 31 March 2017*

	Line description	Units	DPs	Metric
A	**Financial indicators**			
1	Net debt	£m	3	6491.596
2	Regulated equity	£m	3	4073.862
3	Regulated gearing	%	2	61.44%
4	Post tax return on regulated equity	%	2	8.43%
5	RORE (return on regulated equity)	%	2	6.78%
6	Dividend yield	%	2	5.96%
7	Retail profit margin - Household	%	2	0.64%
8	Retail profit margin - Non household	%	2	-0.48%
9	Credit rating	n/a	n/a	BBB+
10	Return on RCV	%	2	5.44%
11	Dividend cover	dec	2	1.50
12	Funds from operations (FFO)	£m	3	744.623
13	Interest cover (cash)	dec	2	5.61
14	Adjusted interest cover (cash)	dec	2	2.80
15	FFO/Debt	dec	2	0.11
16	Effective tax rate	%	2	11.55%
17	RCF	£m	3	520.295
18	RCF/capex	dec	2	0.73
B	**Revenue and earnings**			
19	Revenue (actual)	£m	3	1682.392
20	EBITDA (actual)	£m	3	937.758
C	**Borrowings**			
21	Proportion of borrowings which are fixed rate	%	2	28.77%
22	Proportion of borrowings which are floating rate	%	2	17.85%
23	Proportion of borrowings which are index linked	%	2	53.39%
24	Proportion of borrowings due within 1 year or less	%	2	4.95%
25	Proportion of borrowings due in more than 1 year but no more than 2 years	%	2	4.56%
26	Proportion of borrowings due in more than 2 years but but no more than 5 years	%	2	28.83%
27	Proportion of borrowings due in more than 5 years but no more than 20 years	%	2	38.85%
28	Proportion of borrowings due in more than 20 years	%	2	22.81%

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*With the exception of RORE which is presented on a cumulative basis for the two years ended 31 March 2017. 2015/16 RORE was 6.30% and 2016/17 RORE was 7.26%

Pro forma 4I Financial Derivatives

As at 31 March 2017

	Line description	Units	DPs	Nominal value by maturity (net)			Total value		Total accretion £m	Units	DPs	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 fixed rate	£m	3	502.104	1279.234	1225.000	3006.338	-218.015	0.000	%	2	2.60	0.52
2	Floating from fixed rate	£m	3	-150.000	-375.000	-500.000	-1025.000	280.822	0.000	%	2	0.91	4.86
3	Floating to index linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
4	Floating from index linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
5	Fixed to index-linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
6	Fixed from index-linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
7	**Total**	**£m**	**3**	**352.104**	**904.234**	**725.000**	**1981.338**	**62.807**	**0.000**				
B	**Foreign Exchange**												
8	Cross currency swap USD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
9	Cross currency swap EUR	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
10	Cross currency swap YEN	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
11	Cross currency swap Other	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00	0.00
12	**Total**	**£m**	**3**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**				
C	**Currency interest rate**												
13	Currency interest rate swaps USD	£m	3	0.000	0.000	202.104	202.104	214.986	0.000	%	2	2.40	6.88
14	Currency interest rate swaps EUR	£m	3	0.000	423.657	82.515	506.172	64.297	0.000	%	2	1.06	3.75
15	Currency interest rate swaps YEN	£m	3	35.061	0.000	0.000	35.061	0.627	0.000	%	2	2.10	1.32
16	Currency interest rate swaps Other	£m	3	0.000	0.000	107.261	107.261	58.964	0.000	%	2	1.34	3.17
17	**Total**	**£m**	**3**	**35.061**	**423.657**	**391.880**	**850.598**	**338.874**	**0.000**				
D	**Forward currency contracts**												
18	Forward currency contracts USD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	£m	3	0.000	0.000
19	Forward currency contracts EUR	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	£m	3	0.000	0.000
20	Forward currency contracts YEN	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	£m	3	0.000	0.000
21	Forward currency contracts Other	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	£m	3	0.000	0.000
22	**Total**	**£m**	**3**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**				
E	**Other financial derivatives**												
23	Other financial derivatives	£m	3	0.000	0.000	0.000	0.000	-31.194	0.000	%	2	0.00	0.00
F	**Total**												
24	**Total financial derivatives**	**£m**	**3**	**387.165**	**1327.891**	**1116.880**	**2831.936**	**370.486**	**0.000**				

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For line definitions see Excel version of the data tables

2.7) Additional table narrative

Pro forma Table 1A – Income statement

Dividends shown on line 15 of Table 1A does not agree to the Table 1D cash flow statement as the former includes a £18.360 million non-cash dividend to United Utilities North West Limited in respect of the transfer of the non-household business.

Pro forma Table 1E - Net debt analysis

All figures in table 1E have been calculated by reference to 'RAG 4.06 - 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.

Preference share capital (line 2) links directly from table 1C (line 27) but this only includes preference share capital classed as non-current, whereas the preference shares UUW holds are classed as current. We therefore end up with £nil for preference share capital in table 1E (line 2) instead of the £130 million if we included all preference share capital.

Adjusted gearing (line 8) represents the consolidated net debt of United Utilities Group PLC as a proportion of the company's RCV (per the FD, in outturn prices), calculated based on the methodology published by Moody's Investor Services. This is the gearing measure most commonly used by management and is a key ratio used by Moody's Investor Services in determining the credit rating of the company.

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 excludes 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 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.

The indicative weighted average nominal/cash interest rates (lines 11/12) for floating interest rate debt are unrepresentative of the cost of these borrowings and as such, have not been disclosed in the tables. We hedge most of our floating interest rate exposure through 'floating to fixed' interest rate swaps which results in a very low net floating interest rate exposure. As a consequence the interest cost ends up as a net interest income once we strip out the fixed margin on the debt, due to the basis and timing differences on the floating rate legs of the debt and derivative contracts. The calculated nominal and cash interest rate was -1.65% as at 31 March 2017 based on a £1.2 million net interest receivable on £75.4 million of net floating rate debt (after the impact of swaps).

Weighted average years to maturity takes account of all applicable contractual commitments, which includes derivative instruments with a forward start date, weighted by notional amount and duration.

The calculation of the weighted average years to maturity on floating rate borrowings provides an unrepresentative figure and, as such, has not been be disclosed in the tables. Typically we raise debt in fixed rate form, swap it to floating rate for the duration of the debt instrument and then swap it back to fixed rate on a 10 year reducing balance basis. This hedged position makes it difficult to calculate the weighted average duration in a meaningful way.

- An annual RPI increase of 3.1 per cent at March 2017 has been applied.
- An annual CPI increase of 2.3 per cent at March 2017 has been applied.

Borrowings reconciliation

The below table shows the reconciliation from borrowings in table 1C to borrowings in table 1E

	£m	
Borrowings – current	(358.066)	Table 1C line 15
Borrowings – non current	(7,079.809)	Table 1C line 22
Borrowings (table 1C)	**(7,437.875)**	IFRS measurement basis
Remove fair value movements	703.453	
Remove bond discount	3.140	
Remove interest accrued on FVO debt	2.803	
Borrowings (table 1E)	**(6,728.479)**	Notional value basis

Pro forma Table 4B – Totex analysis

'Other 'Rule book' adjustments' includes a £6.861 million credit to adjust for the 2015/16 amortisation of grants and contributions. In 2015/16, this was recorded within operating costs, mirroring the IFRS accounting treatment. Whilst the 2015/16 treatment was compliant with the RAGs it resulted in this amount being netted against totex which we believe was an unintended consequence of the IFRS accounting treatment. Reversing this in the current year in Table 4B ensures the cumulative 'Adjusted Actual totex' number is corrected. For 2016/17 we have reclassified the corresponding 2016/17 credit of £6.656 million to other income within Table 1A so it does not impact on reported totex.

Pro forma Table 4H – Financial metrics

Return on regulated equity

The notional base case return on regulated equity (RORE) that was assumed in the FD was 5.63%. The outturn RORE position across 2015/16 & 2016/17 (taken as the simple average of the two years) was 6.78% and the breakdown of this is shown in the table below. However, it should be noted that comparisons between the base case and reported RORE can be misleading; the outturn numbers reflects the UUW actual company-specific position (in line with Ofwat's reported RORE definition) 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.

	2015/16	2016/17	Cumulative	Narrative
Base case RORE as per FD	5.63%	5.63%	5.63%	
Remove business retail margin	-	(0.09%)	(0.04%)	1
Adjusted base case RORE	**5.63%**	**5.54%**	**5.59%**	
Totex out/underperformance	-	-	-	2
Retail underperformance	(0.02%)	(0.08%)	(0.05%)	3
Outcome delivery incentives	0.07%	0.19%	0.13%	4
SIM	-	-	-	5
Financing outperformance	0.63%	1.61%	1.11%	6
Reported RORE	**6.30%**	**7.26%**	**6.78%**	7

Narrative:

1) The non-household retail margin assumed in the FD RORE has been removed, following the sale of the non-household retail business to the Water Plus joint venture on 1 June 2016.
2) Totex reflects a five year view that we expect to meet overall totex allowance. This does not adjust for reported overspend vs. totex allowance to date which represents timing differences due to the accelerated spend profile. This does not include the additional £100 million of planned capital investment, on resilience, which is expected to be incurred from 2017/18 through to 2019/20.
3) Costs incurred in retail have been marginally higher than the FD allowance primarily due to one-off costs in non-household.

4) Net ODI reward of £2.5 million in 2015/16 and £6.7million in 2016/17.
5) Despite our above average performance on qualitative SIM for 2016/17, as SIM is a relative intercompany measure, at this stage in the AMP we have not yet presumed any penalty or reward in the RORE calculation.
6) The actual real interest rate has been calculated based on UUW's statutory average net debt (including preference share capital and all derivatives) and using average RPI for the year; the 2015/16 value has also been restated on this basis. Ofwat's base-case RORE 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.
7) Cumulative RORE represents a simple average of 2015/16 and 2016/17.

Borrowings

Borrowings represents 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.

Pro forma Table 4I – Financial derivatives

The inclusion of all 'Other' interest rate swaps into one line in the table (line 16) makes the calculation of a meaningful weighted average interest rate problematic. We would recommend that the weighted average interest rate is better represented by splitting the two swaps that make up the balance.

The interest rates disclosed reflect the following gross positions:

- 'RDC' rate: pay 0.93%, receive 5.02% (Notional of £54.2 million)
- 'HKD' rate: pay 1.77%, receive 2.90% (Notional of £53.0 million)

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. Care should be taken when interpreting 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 care should be taken when interpreting 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.

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

Other financial derivatives (line 23) includes forward starting swaps and electricity swaps which ensures the table now agrees to table 1C:

- Electricity swaps- £9.0 million liability
- Forward starting floating to fixed rate swaps- £22.2 million liability

Appendix 1 - Assurance summary and findings

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

A) Overview and assurance framework

Company monitoring framework

In June 2015, Ofwat published its company monitoring framework for the 2015-20 (AMP6) period. This described how Ofwat 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 companies provide to demonstrate that they are listening to customers and delivering services they want and can afford.

As part of Ofwat's approach to monitoring and assuring delivery it expects companies to have processes in place to ensure that this information can be trusted and uses a series of tests of the quality of each company's information − to provoke and challenge the 17 largest companies to publish information that can be trusted.

As part of this annual review Ofwat rates each company depending on the quality of their information. The rating companies get decides the nature of the assurance that Ofwat expect from them in the future. The higher the rating, the more freedom that companies get over the assurance that they provide. The lower the rating, the less freedom they get.

In Ofwat's 2015/16 assessment UUW, along with South East Water and Severn Trent Water, was moved to the highest rating "self-assurance". UUW exceeded expectations in two areas ("Assurance plan" and "Data assurance summary") and met expectations in eight other areas. Ofwat did have minor concerns in one area, our 2015/16 "Risk and Compliance statement", with a revised statement being signed by the board and included within this APR.

This categorisation allows UUW more discretion in the assurance that we put in place and means that we are not required to consult with stakeholders to target issues to address and publish plans for our assurance. We do, however, continue to believe that it is important to be transparent in our assurance. Accordingly, during 2016/17 we published and consulted on a "Risks, strengths and weaknesses and draft assurance report" and then following feedback published our "Final Assurance Plan" for our 2016/17 reporting. These publications are available on our website.

Appendix 1 - Assurance summary and findings

Assurance framework:

The document AMP6 regulatory reporting assurance framework is published on our website. It sets out the assurance activities that we have put in place to provide reliable, accurate and complete data. It also sets out the wider assurance activities that we undertake 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. The framework is set out in six sections, which are summarised below:

- **Measurement and data capture -** The data required to report on the delivery of our outcomes and other commitments has been developed to be a subset of our routine (and often long standing) operational and management information that is directly used to support and direct key business activities. We have also established a 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 -** We have adopted a structured risk assessment process to underpin the governance and assurance processes supporting our regulatory reporting. The overall combined risk rating is used to help to determine the level of governance and assurance that is applied to the reported information.
    - 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 where necessary to ensure that the management, control and reporting of any risks and resulting actions identified through the process are proportionate to the level of risk.

- **Targeted audit and assurance -** We have adopted a well-established "three lines of assurance" framework. The three lines of assurance 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. Our Corporate Audit team undertake rolling and cyclical audit activity and targeted reviews of key submissions
    - Third line - Independent audit and assurance activities are undertaken by specialist external auditors.

- **Governance and accountability -** We are committed to the very highest standards of corporate governance with defined accountabilities from the UUW Board level through operational governance and review process.

- **Additional communications and publications -** In addition to publishing the minimum information requirements set out by Ofwat within the APR. We are 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 an independent stakeholder forum called the YourVoice panel. The role of the YourVoice panel is to both monitor and challenge us on the delivery of our business plan, to review and advise on our reporting and to scrutinise our customer engagement on the development of our future business plans.

Annual Performance Report 2017

Appendix 1 - Assurance summary and findings

B) 2016/17 Annual Performance Report assurance plan

Our 2016/17 Final assurance plan sets out how all data reported in the 2016/17 APR will be subject to a structured and risk based governance and assurance process, which is summarised in the table below. It also identifies a number of potentially higher risk (targeted) areas which are summarised on the next page.

Risk based assurance plan for the 2016/17 Annual Performance Report

Section	Content	Governance and assurance activities
Risk and Compliance statement	Annual statement confirming compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers	Signed off by the UUW Board, based upon the defined governance and assurance approach relevant for each obligation.
Regulatory financial reporting	Historical cost financial information. Disaggregation of income, from a regulatory accounting perspective, with reconciliation to the UU statutory accounts.	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 77 to 81.
Price review and other segmental reporting	Further separation of revenue and costs to allow stakeholders to review companies' performance against the FD.	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 77 to 81.
Performance summary	A high-level report of the operational performance of the business against the performance commitments set out in the PR14 FD, highlighting any financial incentives accrued in the year.	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.
Additional regulatory tables	Additional financial and non-financial information, including wholesale totex performance against both the PR14 FD assumptions and intercompany unit cost metrics, retail operating cost analysis and financial metrics.	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.

Targeted areas, mitigation and assurance

Appendix 1 - Assurance summary and findings

In addition to the generic assurance processes described above and which 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 for additional assurance activity in our final assurance plan were flagged as a result of four main factors:

- previous reporting issues had been identified,
- inherent data quality issues (usually due to new requirements or changes in circumstances or reporting regimes,
- high priority areas from a customer or stakeholder view point; and
- areas where delivery of our performance commitment targets may have been at risk.

The targeted areas identified in the final assurance plan are set out in the table below and described in detail in our published Final assurance plan.

Final assurance plan – targeted areas

Targeted area	Draft and/or final plan	Previous reporting issues	Inherent data accuracy	High priority areas	Delivery
Outcome delivery incentives (ODIs)	In draft plan	✓	✓	✓	✓
Water quality service	In draft plan			✓	✓
Service incentive mechanism (SIM)	In draft plan			✓	
Price control and segmental reporting	In draft plan	✓	✓		
Business retail market readiness	In draft plan		✓		✓
Business retail operations	In draft plan		✓		✓
Business retail financial reporting	In draft plan		✓		
Charges and tariffs schemes	In draft plan		✓		
Sewer flooding	Added for final				✓
Reliable water service index	Added for final				✓
Rivers improved programme (Ww)	Added for final				✓
Provision of business retail data to support wholesale reporting	Added for final		✓		

Appendix 1 - Assurance summary and findings

Our 2016/17 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 reason for the status of these targeted areas is set out in the table below. Corporate audit report and findings, set out in Section C of this Appendix, confirm that the assurance activities included within the Final Assurance Plan have been complied with and set out the summary of their findings.

2016/17 targeted areas and reason for status

Targeted area	Reason for targeted status
Outcome delivery incentives	Performance against our AMP6 performance commitments and outcome delivery incentives (ODIs) is a high priority area for customers and other stakeholders. Many of the measures have financial incentives, which will impact upon bills in the 2020-25 period. Many of the ODIs are also complex indexes and rely on large volumes of data recorded and analysed through complex systems and processes.
Water Quality Service Index	There was a major and high profile incident affecting the water quality to a large number of customers in Lancashire in 2015/16. Although this incident was not in the current regulatory year it remains a high profile area with customers. The WQSI is also an area where we have performance commitments that we were unlikely to be able to meet in 2016/17.
Service Incentive Mechanism	We have been reporting our performance against the SIM measure for a number of years and as such this was not identified as high risk as a consequence of internal reporting risks. SIM does, however, remain a high priority area for customers as it is a direct measure of customer service.
Price Control and Segmental Reporting	The APR requires detailed reporting of our revenues and expenditure against each price control and against separate accounting units within the wholesale price controls. The 2016/17 APR contains a number of revised data tables and some revised line definitions, with additional information being requested by Ofwat to support the PR19 cost assessment process. We also revised the allocation of some capital contributions following the initial publication of our 2015/16 APR to ensure that the information was consistently allocated with our charges scheme.
Business Retail Market Readiness	Preparations for opening the non-household retail market to competition in April 2017, were complex. Nationally, it has involved the establishment of a new central market operator. Within UUW we have needed to establish new organisational units, revised business processes, supporting IT systems, management information reports and to undertake a substantial training and communications process.
Business Retail Operations	Responsibility for managing non-household billing contacts, written complaints and associated guaranteed service standards (GSS) transferred to Water Plus on 1st June 2016. Although several UUW staff have transferred to Water Plus, the new company has moved location, employed new staff, applied new processes and developed and enhanced their customer management and billing system.

2016/17 targeted areas and reason for status (continued)

Targeted area	Reason
Business Retail Financial Reporting	UUW is required to report on the financial performance of its non-household retail operations for the full 12 months of the 2016/17 period. Responsibility for non-household billing operations transferred to Water Plus on 1st June 2016, with a process needing to be agreed to ensure continuity of reporting and to demonstrate that costs for shared services were allocated in line with RAG5 (level playing field) requirements.
Charges and Tariffs Scheme	Although we have been developing, assuring and publishing an annual charges scheme for a number of years, during 2016/17 elements of the charges scheme needed to be uploaded to CMOS, the business retail market operators central system, to allow these charges to be used in the competitive business retail market
Sewer Flooding Index	The sewer flooding index performance commitment has been identified for targeted status because, as a result of the high rainfall experienced this year, the company was unlikely to be able to meet the performance target for this measure in 2016/17 and could incur a financial penalty through the associated outcome delivery incentive for the measure.
Reliable Water Service Index	The Reliable Water Service Index performance commitment has been identified for targeted status because the company was unlikely to be able to meet the performance target for this measure in 2016/17 and could incur a financial penalty through the associated outcome delivery incentive for the measure.
Rivers Improved Programme (Ww)	The Rivers improved (wastewater) performance commitment has been identified for targeted status because, during 2016/17, a revision to the target published in the PR14 FD was agreed and published in a corrigendum on the Ofwat website. Potential additional changes to this programme have also been agreed with the Environment Agency (EA). Our reporting needs to reflect performance against both the revised target agreed with Ofwat and against the NEP5 programme agreed with the EA.
Provision of Business Retail data to support wholesale reporting	During 2016/17 Water Plus became responsible for reporting information that is used by UUW wholesale for operational and regulatory reporting purposes. Examples of this data are: • Water consumption figures that are needed to be able to calculate and verify leakage levels. • Property and void numbers that are utilised across a number of company metrics.

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 77 to 81 within Section 2.2 of the APR. 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 volumetric data used to support the remainder of the data within the APR tables, including the outcome delivery information. HMS have also been employed to review the supplementary Cost Assessment data that Ofwat have required companies to submit in addition to the APR, to help inform their future markets and price setting work ('Water 2020').

The findings from technical auditor's review, which covers the APR information and the Cost Assessment information, were presented to the UUW Board and are set out is Section 4.1 on pages 140 to 148, below. The Independent Technical Assurance Statement is set out on Page 148.

Corporate audit – UU Corporate Audit have undertaken an independent review of the effectiveness and application of the assurance framework applied to the APR. Their findings were presented directly to the UUW Board and are set out in Section 4.2 on pages 149 to 154 below.

In addition **YourVoice**, the independent stakeholder forum, have reviewed our performance and reporting throughout the year and presented their findings directly to the UUW board. They have also published their reflections on United Utilities' performance during 2016-17, 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 2017	All	KPMG audit opinion
Section 2 Price review and other segmental reporting			
2A	Segmental income statement	All	KPMG audit opinion
2B	Totex analysis - wholesale water and wastewater	All	KPMG audit opinion
2C	Operating cost analysis – retail	All	KPMG audit opinion
2D	Historical cost analysis of fixed assets wholesale and retail	All	KPMG audit opinion

2E	Analysis of capital contributions and land sales – wholesale	All	KPMG audit opinion
2F	Household – revenues 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	All	KPMG audit opinion
Section 3 Performance summary			
3A	Outcome performance table	All	HMS agreed upon procedures
3B	Sub-measure performance table	All	HMS agreed upon procedures
3C	AIM table	All	HMS agreed upon procedures
3D	SIM table	All	HMS agreed upon procedures
Section 4 Additional regulatory information			
4A	Non-financial information	All	HMS agreed upon procedures
4B	Wholesale totex analysis	All	KPMG agreed upon procedures
4C	Impact of AMP performance to date on RCV	All	KPMG agreed upon procedures
4D	Totex analysis – wholesale water	1-21	KPMG agreed upon procedures
4D	Totex analysis – wholesale water	22-30	HMS agreed upon procedures
4E	Totex analysis – wholesale wastewater	1-21	KPMG agreed upon procedures
4E	Totex analysis – wholesale wastewater	22-32	HMS agreed upon procedures
4F	Operating cost analysis – household retail	All	KPMG agreed upon procedures
4G	Wholesale current cost financial performance	All	KPMG agreed upon procedures
4H	Financial metrics	All	KPMG agreed upon procedures
4I	Financial derivatives	All	KPMG agreed upon procedures

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

1. Introduction

For 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. Data used by United Utilities (UUW) to populate the APR has been predominantly derived from their RR17 data return.

The reports prepared by the Company 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.

For 2016/17, Ofwat has also asked each company to submit supplementary Cost Assessment data in addition to the APR to help inform their future markets and price setting work ('Water 2020'). Where the required cost assessment data is not already captured within the RR17 data return, UUW has added additional lines to ensure all data reported in the APR and Cost Assessment submission are subject to independent technical assurance.

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 RR17 have been compiled in accordance with the guidance[1] of, the Water Services Regulatory Authority (Ofwat), 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.

[1] Guidance includes:
Regulatory Accounting Guidelines versions 1.07; 2.06; 3.09; 4.06 APR table templates and guidance
Performance commitments and definitions agreed with Ofwat for the AMP6 period, or as subsequently superseded
Ofwat's most recent June Return guidance
UUW procedures, definitions and assumptions which should where relevant, be compliant with the guidance hierarchy above

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 7th April 2017, which is summarised as follows:

APR information (as reported in RR17), which is prepared in accordance with Ofwat's APR guidance and information which supported the Final Determination for the AMP6 period and includes:

- General information
- Customer service information
- Operational activities and performance
- Networks and treatment
- Capital expenditure allocations to revenue controls and business streams, to investment categories and to measures of success
- Calculation of 2016/17 rewards and penalties associated with the Outcome Delivery Incentive mechanisms
- Other miscellaneous metrics

Where the above guidance does not cover the items assured, they are assessed against 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 RR17 information above, and we checked to ensure each Measure of Success had been populated with the appropriate RR17 performance data. Our key findings relating to the MoS are summarised in Appendix 2.

Cost Assessment Submission
This is an additional data submission, requested by Ofwat to assist in their cost assessment modelling to help inform their future markets and price setting work ('Water 2020'). Whilst some of this data was already captured by UUW within previous RR data returns, additional lines/tables have been added to RR17 to enable population of the complete dataset.

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 RR17 (including additional Cost Assessment Data) 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 RR17 and Measures of Success information

RR17 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 as shown in Appendix 1.

Detailed reports of each RR17 (APR and Cost Assessment) and associated Measure of Success audit will be provided under separate cover.

4.1 RR17 (APR and Cost Assessment) and Measures of Success

- **The reported data is materially compliant with Ofwat's Reporting Requirements (PR14 and/or June Return as appropriate) and Cost Assessment line definitions**
- **The commentaries and statements provide a fair and balanced commentary of the Company's 2016/17 circumstances and performance**
- Procedures and assumptions are generally reasonable and well embedded, well documented and appropriately implemented
- **There are no Red status concerns**
- **Whilst there are a small number of Amber status concerns remaining (3), these primarily relate to specific Cost Assessment data that is still under review (2) or areas where a methodology change is out with the approach agreed at PR14 (1).**
- Overall, UUW staff were knowledgeable, helpful, receptive and well prepared for the audits. However, although some of the Cost Assessment data was outstanding at the time of audit, meaning that scheduled audits were unable to be completed, we consider this to be understandable as Ofwat's final data requirements were not received until mid-May and some of the methodologies required to capture the data have been difficult to develop.
- We continue to see very good evidence of senior management engagement
- As highlighted above, whilst there are a few Amber status concerns, which we discuss in further detail below, the majority of the observations raised (Blue), are relatively minor and are mainly recommendations for UUW to review their processes and to watch the trends over the coming year, a few examples of which, are also provided below (or see Appendix 1 and 2 for further details):

	RAG Status			
Summary of Current Issues - RR17 (APR & Cost Assessment) & MoS	**R**	**A**	**B**	**G**
Performance & Reporting issues	-	3(2)*	33	-
Methodology amendments proposed	-	-	27	-
Assumption issues	-	-	9	-
Source Data shortcomings	-	-	13	-
Audit Trail not sufficient	-	-	28	-
Confidence Grades needed or change recommended	-	-	5	-
Governance not complete at time of audit	-	-	15	-
Totals	**-**	**3(2)***	**130**	**1150**

( )* - Amber issues resulting from cost assessment data that is still under review

Amber Findings:

T5b – SIM - MoS R-A2 – We found that UUW had correctly reported that the MoS R-A2 depreciation target will not be achieved in 2016/17 due to the change in expected commissioning of projects and a change of scope of systems delivered. The Company has made the decision to abort the CRM project and replace with certain elements in order to deliver the same outcomes to customers. This decision was made as part of the detailed design and optioneering of the programme. We queried the potential impact of the revised scope and how Ofwat may compare the forecast five year depreciation of £13.283m against the value of £17.769m at 31st March 2020 as specified in the Final Determination. There is a risk that penalty rate 2 may apply, which penalises the company if the customer experience programme is not fully delivered by 31 March 2019.

T16c/17a – Cost Assessment – WwTW – Due in part to the late receipt of Ofwat's reporting requirements and complexity of the required methodologies, UUW are still developing methodologies for the collection of some of the data sets, meaning that scheduled audits have not been completed and data tables are not yet populated and P&CS not prepared. However, we still anticipate reviewing this data in advance of the July submission date.

Blue Findings:

As highlighted in the summary table above, a number of observations and minor process failings were also identified (130 blue out of 1283 RAG cells assessed (10%)), however, the findings did not have a material impact on reported performance, with the possible exception of Sewer Flooding (see below). By way of example, we have included a summary of some of the blue issues identified for RR17.

Table 3 – Sewer Flooding (MoS S-B2) – Overall flooding performance was severely impacted by localised severe weather events in June and September 2016, primarily affecting the Liverpool and Manchester areas. As a result of this, internal hydraulic flooding performance was 88% above the year- end target for 2016/17, resulting in MoS S-B2 being in penalty for the year. We found that there were many properties that flooded during these documented periods of severe weather that did not flood during a verified severe weather event, but appeared to have flooded during storms of a relatively low intensity, suggesting the Company have reported a number of incidents that were likely to have been caused/exacerbated by severe weather. On this basis, we consider the Company may have over reported the number of hydraulic flooding incidents for RR17, and suggest a more widespread categorisation of incidents caused by a localised severe weather event could be employed.

T6b – Customer Support – KP14 – We found that UUW may be under-reporting KP14 (an internal ODI reported to CCW). UUW are only including customers who can be demonstrably proven to have been rehabilitated by company action and as such are not including customers with Debt Free Meter Options as it is unclear whether this was the result of company action or not. Additionally, some customers who were previously on the Arrears Allowance (AA) scheme and may now be "rehabilitated" are not being included as they are no longer tracked when they leave the AA debt router. Notwithstanding the above, UUW are still on track to meet their target, and inclusion of 'rehabilitated' customers previously on the Arrears Allowance and Debt Free Meter Options, would only serve to further improve their position.

Table 11 – W-C1 – EA data confirmed that the AIM river flows did not drop below the low-flow Q95 AIM thresholds for 2016/17 and as a result UUW has counted the total associated length of river, however, the Ofwat FD14 documents suggests this measure relates to circumstances where UUW is managing the impacts of the abstractions when flows are under the Q95 AIM threshold. We recommend that the understanding and acceptance of all relevant parties is confirmed to remove any potential ambiguity on the associated monetary risk/reward mechanism, which will apply at the end of AMP6.

Capex – Internal Table E1 – We are concerned that Line E3 does not consider any carry-over into AMP7. There may be material deferments within the Latest Best Estimates which will need to be considered when compiling the financial plans for PR19. In addition, Line E20 does not include additional incomes resulting from unfunded work, e.g. diversions and insurance (as a result of Storm Desmond). We consider inclusion of this would present a more correct outturn position. In the case of Line E34, we note that stretching cost-reduction targets have been set for the projects and programmes ongoing and projects yet to start. Whilst it is possible that some work (particularly maintenance) may have already been done, where proactive and reactive maintenance programme run-rates are dropping, we consider that it is too early to identify that these targets are being achieved without any longer- term detriment to service.

Internal Table 12a/12c/17a – Energy – Whilst the methodology is consistent with previous submissions, the overall energy reporting process relies entirely on an external third party to provide the final reported numbers. As a result of this, the audit trail was difficult to follow and was potentially incomplete. We recommend that a nominated person within the business (preferably based in the Energy Directorate as they handle the consumption data on a daily basis) should be responsible for the preparation and reporting of this measure going forward, to ensure better understanding of the reported data.

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 2017 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 are 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 RR17 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

06 July 2017

Halcrow Management Sciences Limited

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4.2) Corporate Audit review of regulatory reporting 2016/17

1. Executive Summary

1.1. Introduction

To report the results of the audit work carried out by Corporate Audit to support the sign off of the 2016/17 Annual Performance report (APR) by the UU Board.

1.2. 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 Annual Performance Report (APR), which outlines Ofwat's minimum information requirements; and
- The Company Monitoring Framework, which sets out the review and assurance processes that 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 regulatory data is compiled in advance of UUW Board sign off.

1.3. Audit Objective

The objective of the audit is to provide assurance in respect of the governance, processes and key controls over the production of the 2016/17 Annual Performance Report and associated Assurance Report. Refer to Section 2 for details of the scope of the audit.

1.4. Conclusion

Based on the work carried out, we are satisfied that data reported in sections 3 and 4 of the Annual Performance Report is supported by underlying systems, data and tables, and that it has been compiled in accordance with RAG 3.09 "*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 compiled accurately and completely 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.

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 into the APR.

2. Background, objectives and scope of review

2.1. Background

The Annual Performance Report

Ofwat require companies to report on their financial and operational performance in an Annual Performance Report (APR). This includes information specific to customers and stakeholders, together with information that enables comparison between companies across the sector.

As part of the APR Ofwat require that a risk and compliance statement is published annually, setting 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 key risks it faces. The 2017 statement will incorporate feedback from Ofwat on the 2016 submission specific to UU and to other companies within the sector.

The APR is supplemented by a series of data 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).

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

Ofwat assesses companies between three categories: self-assurance, targeted assurance and prescribed assurance. UUW has been re-assessed for 2017 and is now placed in the 'self-assurance' category. However, this "promotion" from 'targeted assurance' category will not lead to any change in UU's approach. As part of the 2016/17 annual reporting cycle, UUW has published two documents:

- A statement of risks, strengths and weaknesses in regulatory reporting, together with a draft assurance plan (*published November 2016*). This is a consultation document, with Ofwat being one of those consulted; and
- The final assurance plan, setting out the assurance that will be adopted for the 2016/17 regulatory reporting. *This was published in March 2017* and reflects feedback obtained during the draft assurance plan and further internal analysis.

Governance arrangements will continue to follow 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 (Level 3) 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;
- All of the financial regulatory accounts information will be subject to an annual audit by the external auditors (KPMG); and
- All of the regulatory performance data (ODIs) will be subject to an annual review by the external technical auditors CH2M (formerly known as Halcrow).

Water Plus implications for UUW’s Annual Performance Report

During 2016/17 Water Plus was created (legally 1 June 2016) in order to serve non-domestic customers as part of the response to opening of the non-domestic retail market. This impacts the APR reporting period as follows:

- Financial data will include: A full year for UUW Wholesale and Domestic Retail, and two months (April and May 2016) for Non-Domestic Retail; and
- Non-financial data will include: A full year for all data elements.

The Non-Domestic Retail data along with some elements of the Wholesale regulatory data will be provided by Water Plus and is subject to separate governance, control and assurance managed by Water Plus, with oversight from UU.

2.2. Key Risks

The overall risk is that inaccurate, incomplete or misleading data / information is published and reported to Ofwat resulting in regulatory action being taken against UU and/or its individual Directors. Consequently, financial penalties could be imposed together with a loss of confidence by customers and investors and a “demotion” of Company Monitoring Framework category, potentially impacting whether UU is classed as “enhanced” for PR19.

2.3. Audit Objectives

The objective of the audit is to provide assurance in respect of the governance, processes and key controls over the production of the 2016/17 Annual Performance Report and associated Assurance Report.

2.4. Scope

The scope of this review supplements the assurance provided by KPMG and CH2M, providing the Board with assurance over the 2016/17 regulatory reporting governance, processes and key controls in advance of the Board sign-off of the Annual Performance Report and Assurance Report prior to publication July 2017.

The audit covered the following areas:

- The validity consistency of the data reported in Sections 3 and 4 of the Annual Performance Report. This will include sample testing to agree data back to underlying UU records and systems, or Water Plus provided data. *Note: this review will not duplicate the work undertaken by KPMG;*

- Evidence that the feedback provided by Ofwat has been appropriately reflected in this year's regulatory reporting;
- Consistency of the commentary with the underlying data within the APR;
- Compliance of the reported data in the APR with key aspects of Regulatory Guideline 3.09 "*Guideline for the format and disclosures for the annual performance report*";
- Overall governance arrangements in place to ensure the regulatory data is complete and accurate and reported in line with the required timescales;
- The appropriateness of UU's oversight of the data provided by Water Plus prior to incorporation into the APR;
- 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 2016/17) to ensure it is a fair reflection of the associated assurance activities and results thereof.

Exclusions from scope

- As testing will be performed on a sample basis, the review will not verify all the regulatory data or compliance with regulatory obligations;
- Sections 1 and 2 tables within the Annual Performance Report 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, CH2M;
- The review will not assess 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;
- The regulatory performance of the business; and
- Water Plus's governance, control and assurance activities in respect of Water Plus data.

3. Summary of work carried out and findings

3.1. 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 20 table data line sets and 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. We tested for consistency of the reported data with the commentary and compliance of the reported data with key aspects of Regulatory Guideline 3.09 "Guideline for the format and disclosures for the annual performance report".

One observation noted in the detailed testing related to "Billed Consumption Non-Household (NHH) (potable)". This forms part of the Water Balance calculation, which has a direct impact on the calculation of leakage. Consumption volumes in 2015/16 and previous years were derived from MECOMS, although following the start of shadow operations data has also become available from the market operator's central database (CMOS). Data from CMOS will be the only source of data for 2017/18 and future years reporting.

Following a review of the data from each source, it was concluded that as the data was sufficiently consistent and as the CMOS data is demonstrably more reliable, the CMOS data should be used as the basis of this year's reporting.

3.2. Assessing whether feedback provided by Ofwat has been appropriately reflected in this year's regulatory reporting

The key point of feedback from Ofwat in respect of UU's 2015-16 APR was in respect of the wording of the Risk and Compliance statement. The proposed statement for 2016/17 has been updated accordingly.

3.3. Consistency of the commentary with the underlying data within the APR.

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, 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.

3.4. Compliance of the reported data in the APR with key aspects of Regulatory Guideline 3.09.

We reviewed the content of the Annual Performance Report against the requirements set out in RAG 3.09 "*Guideline for the format and disclosures for the annual performance report*" for omissions or contradictions. No issues were noted.

3.5. 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 3.1, 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.

3.6. UU's oversight of the data provided by Water Plus prior to incorporation into the APR

UU has highlighted the accuracy and completeness of the data provided by Water Plus as a targeted area within UU's assurance plan for 2016-17. Our audit testing has confirmed that the assurance activities described have been completed.

3.7. Confirmation that assurance activities detailed in UU's published Final Assurance Plan have been completed in line with the plan

We verified, on a sample basis, that the assurance activities as described within the Assurance Plan had been performed. In particular, 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.

3.8. Review the proposed Assurance Report to ensure it is a fair reflection of the associated assurance activities and results thereof

We have reviewed the draft Assurance Report and are satisfied that it is a fair reflection of the assurance activities carried out and of the results of those activities.

Appendix 2 – Outcome Delivery Incentive Calculations

Introduction

This appendix sets out how the reported performance levels and associated reward and penalty calculations have been determined for our performance commitments that are based upon an index of sub measures. Information is provided for both the 2015/16 and 2016/17 calculations.

Our index based performance commitments are:

- A3 - Water Quality Service Index
- B2 - Reliable Water Service Index
- S-A1 - Private sewers index
- S-A2 Wastewater network performance index
- S-B2 Sewer flooding index
- S-D2 Maintaining our WwTW

A description of the performance of these index measures is provided in Section 1 of the APR.

The performance for each of the sub measures is also set out in Pro forma Table 3B, within Section 2.6 of the APR.

Performance commitment A3 - Water Quality Service Index

Derivation of top level index score

The overall index score for this measure is calculated by multiplying the actual performance by the weighting for each sub measure, summing the results and adding a constant (-15,628.2236).

2015/16 calculation

The derivation of the 2015/16 index score of 120.4653 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub measure incentive contribution	Target Performance 2015/16	Actual Performance 2015/16	Weighting	Target Performance 2015/16 x weighting	Actual Performance 2015/16 x weighting
WTW Coliform non-compliance (%)	Penalty only	0.06	0.06	-16.21712812	-0.6487	-0.9730
SR Integrity Index	Penalty only	99.98	99.98	37.39055984	3737.5604	3738.3082
No. of WTW turbidity fails	Penalty only	1	1	-0.076539797	-0.2296	-0.0765
Mean Zonal Compliance (%)	Penalty only	99.96	99.96	116.549188	11650.2568	11650.2568
Distribution Maintenance Index (%)	Penalty only	99.89	99.89	4.48246986	447.7091	447.7539
Sum of weighted target performance for penalty only sub measures					**15834.6480**	**15835.2694**
No. unwanted customer contacts for water quality (per year)	Penalty and reward	9,171	9,171	-0.009440671	-87.0996	-86.5804

Weighted sum	15748.6890
Constant	-15628.2236
Weighted sum plus constant (i.e. Index score)	120.4654

Derivation of the 2015/16 reward or penalty

The calculation of the penalty and the reward for this measure are determined on a different basis.

The size of any penalty associated with the WQSI is determined by the under-performance of all six sub measures. The size of any reward is however based upon the out-performance of the customer contact sub-measure only. For the reward calculation the other five (water quality) sub-measures do not contribute to the reward as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain a reward for meeting our statutory obligations.

Therefore the size of any WQSI reward is based upon the actual customer contact value plus the lower of a) the sum of the weighted actual scores or b) the sum of the weighted target scores, for the five water quality compliance measures. The derivation of the index score used in the reward calculation is set out below:

Sum of lower of target or actual performance for performance measures plus actual customer contact performance	15748.0676
Add constant	-15628.2236
Index score for reward calculation	119.8440

The reward is therefore determined as = (Index score for reward calculation – Reward deadband) x reward incentive rate

Reward = (119.8439843-119.3) x 0.471 = £0.227 million.

2016/17 calculation

The derivation of the 2016/17 index score of 116.923 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub measure incentive contribution	Target Performance 2016/17	Actual Performance 2016/17	Weighting	Target Performance 2016/17 x weighting	Actual Performance 2016/17 x weighting
WTW Coliform non-compliance (%)	Penalty only	0.04	0.01	-16.21712812	-0.6487	-0.1622
SR Integrity Index	Penalty only	99.96	99.98	37.39055984	3737.5604	3738.3082
No. of WTW turbidity fails	Penalty only	3.00	2	-0.076539797	-0.2296	-0.1531
Mean Zonal Compliance (%)	Penalty only	99.96	99.96	116.549188	11650.2568	11650.2568
Distribution Maintenance Index (%)	Penalty only	99.88	99.85	4.48246986	447.7091	447.5746
Sum of weighted target performance for penalty only sub measures					**15834.6480**	**15835.8244**
No. unwanted customer contacts for water quality (per year)	Penalty and reward	8065.307	9,605	-0.009440671	-76.1419	-90.6776

Weighted sum	15745.1467
Constant	-15628.2236
Weighted sum plus constant (i.e. Index score)	116.923

Derivation of the 2016/17 reward or penalty

The calculation of the penalty and the reward for this measure are determined on a different basis.

The size of any penalty associated with the WQSI is determined by the under-performance of all six sub measures. The size of any reward is however based upon the out-performance of the customer contact sub-measure only. For the reward calculation the other five (water quality) sub-measures do not contribute to the reward as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain a reward for meeting our statutory obligations.

Therefore the size of any WQSI reward is based upon the actual customer contact value plus the lower of a) the sum of the weighted actual scores or b) the sum of the weighted target scores, for the five water quality compliance measures. The derivation of the index score used in the reward calculation is set out below:

Sum of lower of target or actual performance for performance measures plus actual customer contact performance	**15834.6480**
Add constant	-15628.2236
Index score for reward calculation	206.4244

As the index score is also below the penalty cap the capped penalty has been applied. The penalty is therefore determined as = (Penalty deadband – Penalty cap) x penalty incentive rate

Penalty = (130.3-125.6) x -0.77 = -£3.619million.

Performance commitment B2 - Reliable Water Service Index

Derivation of top level index score

The overall index score for this measure is calculated by multiplying the actual performance by the weighting for each sub measure, summing the results and adding a constant (134.147).

2015/16 calculations

The derivation of the 2015/16 16.447 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2015/16	Actual Performance 2015/16	Weighting	Actual performance 2015/16 x weighting
Total bursts	Penalty only	5080	4785	-0.002022	-9.674387565
Interruptions greater than 12 hours	Penalty and	730	11431	-0.007902	-90.32796146
Poor pressure	Penalty and	272	262	-0.008468	-2.21870443
No. unwanted customer contacts for water availability (per year)	Penalty and	50,000	47,011	-0.000329	-15.47840593

Weighted sum	-117.6994594
Constant	134.147
Weighted sum plus constant (i.e. Index score)	16.447

Derivation of the 2015/16 reward or penalty

The calculation of the penalty and the reward for this measure are determined on a different basis.

The size of any penalty associated with the RWSI is determined by the under-performance of all four sub measures. The size of any reward is however based upon the out-performance of the interruptions, poor pressure and unwanted contacts sub measures only.

As the index score of 16.447 is in penalty all four measures are used in the index score for calculating the penalty.

As the index score is also below the penalty cap the capped penalty has been applied. The penalty is therefore determined as = (Penalty deadband – Penalty cap)*penalty incentive rate

Penalty = (95 – 94) x 7.974 = £7.974million.

2016/17 calculations

The derivation of the 2016/17 77.840 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2016/17	Actual Performance 2016/17	Weighting	Actual performance 2016/17 x weighting
Total bursts	Penalty only	5080	4590	-0.002022	-9.280133526
Interruptions greater than 12 hours	Penalty and reward	730	3759	-0.007902	-29.70368359
Poor pressure	Penalty and reward	272	345	-0.008468	-2.921576445
No. unwanted customer contacts for water availability (per year)	Penalty and reward	50,000	43740	-0.000329	-14.4014268

Weighted sum	-56.30682036
Constant	134.147
Weighted sum plus constant (i.e. Index score)	77.840

Derivation of the reward or penalty

The calculation of the penalty and the reward for this measure are determined on a different basis.

The size of any penalty associated with the RWSI is determined by the under-performance of all four sub measures. The size of any reward is however based upon the out-performance of the interruptions, poor pressure and unwanted contacts sub measures only.

As the index score of 77.840 is in penalty all four measures are used in the index score for calculating the penalty.

As the index score is also below the penalty cap the capped penalty has been applied. The penalty is therefore determined as = (Penalty deadband – Penalty cap)*penalty incentive rate

Penalty = (95 – 94) x 7.974 = £7.974 million.

Performance commitment S-A1 - Private sewers index

Derivation of top level index score

The index is calculated by multiplying the performance for each of the sub-measures by its associated willingness to pay (WTP) figure. Each of the resulting figures is then summed together and the total divided by the summed FY14 total performance (1,315,538). The result of this is multiplied by 100 to generate the index score.

2015/16 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	13,906	59.30	824,625.80
Sewer collapses / rising main bursts	361	97.10	35,053.10
Pollution incidents (Ww infra)	5	1516.30	7,581.50
Sewer flooding (internal)	418	297.50	124,355.00
Sewer flooding (external)	4,605	46.6	214,593.00
		Total	1,206,208.40
			(1,206,208.40/1,315,538) x 100
	Weighted sum plus constant (i.e. Index score)		91.69

2016/17 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	14,031	59.30	832,038.30
Sewer collapses / rising main bursts	391	97.10	37,966.10
Pollution incidents (Ww infra)	1	1,516.30	1,516.30
Sewer flooding (internal)	415	297.50	123,462.50
Sewer flooding (external)	4,599	46.6	214,313.40
		Total	1,209,296.60
			(1,209,296.60/1,315,538) x 100
	Weighted sum plus constant (i.e. Index score)		91.92

Derivation of the reward or penalty

This measure is in reward for 2016/17. The reward is calculated by assessing how many index points performance is below the reward deadband (up to a maximum of 6.9 points) and multiplying the result by the incentive rate of £1.069 million per point. As shown in the table below our performance is below the reward cap of 91.90, therefore this figure has been used to calculate the reward not our actual performance of 91.69.

PC 2015	100.00
2016/17 performance	91.69
Reward dead band	98.80
Reward cap	91.90
Incentive rate	£1.069m
Reward calculation	(98.8-91.92)* £1.069
Reward	**£7.35m**

Performance commitment S-A2 Wastewater network performance index

Index calculation

The index is calculated by multiplying the performance for each of the sub-measures by its associated WTP figure. The resulting figures are then summed together and the total divided by the summed total of the FY14 performance (288,266). The result of this is multiplied by 100 to generate the index score.

2015/16 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,473	26.1	195,045.30
Sewer collapses / rising main bursts	261	97.1	25,343.10
Sewer collapses / rising main bursts	51	485.2	24,745.20
Equipment failures (ww infra)	2,704	6.3	17,035.20
		Total	262,168.80
			(262,168.80/288,266)*100
Weighted sum divided by constant (i.e. Index score)			**90.95**

2016/17 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,469	26.1	194,940.90
Sewer collapses / rising main bursts	268	97.1	26,022.80
Sewer collapses / rising main bursts	46	485.2	22,319.20
Equipment failures (ww infra)	2,322	6.3	14,628.60
		Total	257,911.50
			(257,911.50/288,266)*100
Weighted sum divided by constant (i.e. Index score)			**89.47**

Derivation of the reward or penalty

This measure is below our performance commitment of 103.2, however as it is incentivised through a penalty only mechanism, no reward is to be applied.

Performance commitment S-B2 Sewer flooding index

Index calculation

The index is calculated by multiplying the performance for each of the sub-measures by its associated WTP figure. Each of the resulting figures is then summed together and the total divided by the summed total FY14 performance (258,753). The result of this is multiplied by 100 to generate the index score.

2015/16 Performance

Sub measure	Performance	WTP	Total
Properties flooded due to other causes	839	117.1	98,246.9
Properties flooded due to hydraulic overload	147	117.1	17,213.7
Areas flooded due to other causes	3,391	26.3	89,183.3
Areas flooded due to hydraulic overload	455	26.3	11,966.5
Incidents of repeat flooding	377	117.1	44,146.7
		Total	260,757.10
			(260,757.10/258,753)*100
Weighted sum divided by constant (i.e. Index score)			**100.77**

2016/17 Performance

Sub measure	Performance	WTP	Total
Properties flooded due to other causes	794	117.1	92,977.40
Properties flooded due to hydraulic overload	147	117.1	17,213.70
Areas flooded due to other causes	3,274	26.3	86,106.20
Areas flooded due to hydraulic overload	215	26.3	5,654.50
Incidents of repeat flooding	362	117.1	42,390.20
		Total	244,342.00
			(244,342.00/258,753)*100
		Index	**94.4**

Derivation of the reward or penalty

The 2016/17 actual performance of 94.4 has exceeded our performance commitment of 83.9. This measure is in penalty for 2016/17. The penalty is calculated by assessing how many index points performance is above the penalty deadband (up to a maximum of 10.4 points) and multiplying the result by the incentive rate of £2.12 million per point.

2016/17 performance	94.40
Penalty dead band	98.8
Penalty cap	91.90
Incentive rate	£2.12m
Penalty calculation	(94.4-93.7)* £2.12
Penalty	**£1.484m**

Performance commitment S-D2 Maintaining our WwTW

Index calculation

The index is calculated by summing the points each WwTW has accrued for its environmental performance in the year. The maximum potential points that a works in each size band can receive for each level of failure or risk is shown in the table below, with these values based upon an annual failure or being at that level of risk for the full 12 month period. The performance of each works can change month by month, with the score for each works being based upon the monthly performance, with the total score over the twelve months being assigned to the highest risk category for that works.

This year two works from size band 1-4 hand three works from size band 6a have been classified as a failing works.

A more detailed description of this methodology can be found in our definition documents which can be found at the following link.

Maximum annual risk points

Risk status	Size band	Index points
Failed works	Size band 1-4	4.0967
	Size band 5	8.1934
	Size band 6a	16.3867
	Size band 6b	40.9668
High risk	Size band 1-4	0.0819
	Size band 5	0.1639
	Size band 6	0.8193
Medium risk	Size band 1-4	0.0410
	Size band 5	0.0819
	Size band 6	0.4097

2015/16 performance

Risk status	Performance	Number of works
WwTWs failing EA permit - small (size band 1-4)	0.0000	0
WwTWs failing EA permit - medium (size band 5)	16.3868	2
WwTWs failing EA permit - large (size band 6a &6b)	73.8768	3
WwTWs at high risk of failing EA permit - small (size band 1-4)	0.0376	2
WwTWs at high risk of failing EA permit - medium (size band 5)	0.0000	0
WwTWs at high risk of failing EA permit - large (size band 6)	0.1365	2
WwTWs at medium risk of failing EA permit - small (size band 1-4)	0.3713	65
WwTWs at medium risk of failing EA permit - medium (size band 5)	0.0272	4
WwTWs at medium risk of failing EA permit - large (size band 6)	0.6485	11
Total points	**91.4847**	**87**

2016/17 performance

Risk status	Performance	Number of works
WwTWs failing EA permit - small (size band 1-4)	8.1934	2
WwTWs failing EA permit - medium (size band 5)	0.0000	0
WwTWs failing EA permit - large (size band 6a &6b)	49.1601	1
WwTWs at high risk of failing EA permit - small (size band 1-4)	0.1159	6
WwTWs at high risk of failing EA permit - medium (size band 5)	0.0341	2
WwTWs at high risk of failing EA permit - large (size band 6)	0.0000	0
WwTWs at medium risk of failing EA permit - small (size band 1-4)	0.3104	16
WwTWs at medium risk of failing EA permit - medium (size band 5)	0.041	9
WwTWs at medium risk of failing EA permit - large (size band 6)	0.8874	12
Total points	**57.7082**	**48**

Incentive calculation

This measure is below our performance commitment of 83, however this measure is penalty only therefore no reward is applied.