

10 June 2016



**Scottish
Water**

Trusted to serve Scotland

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Dear Ian,

Annual Return 2015/16 Submission

I am pleased to submit the Annual Return tables and commentary for 2015/16; comprising of:

- Overview Document - 2 paper copies
- Commentary - 2 paper copies
- Tables - 2 paper copies
- All documents – electronic version - 1 CD ROM

The Overview document reports on Scottish Water's performance and activities in 2015/16, the first year of the 2015-21 regulatory period. In our 2015 Delivery Plan we stated that while the targets were very challenging, we were determined to deliver significant further improvements for our customers and out-perform our commitments. We are pleased to report that during 2015/16 we made a positive start to delivering these commitments. Our drinking water quality has been at its highest quality ever; leakage levels continue to reduce; our household Customer Experience Measure demonstrates improvements in all seven areas of performance measured under CEM; and our customer satisfaction score is at a record level.

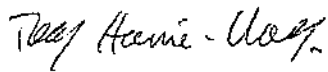
While our first year of the new regulatory period was successful in many areas there were challenges in terms of our investment delivery. The scale of the changes we put in place to improve our investment planning and delivery impacted on our rate of delivery in the first half of the year. Momentum increased in the latter part of the year enabling us to achieve our original OMD target. We appreciated the support of the Water Industry Commission and the Output Monitoring Group in agreeing to the re-baselining of our investment programme which will provide a stable platform for monitoring and reporting our delivery during the 2015-21 period.

We started the 2015-21 period with 37 projects from the previous programme which were due, but not completed, by March 2015. By 31 March 2016 we had delivered 22 of these projects. While our original target was to have delivered 28, we will continue to maintain a strong focus on delivering the remaining projects as soon as possible.

Our Overview document sets out the reconciliation of cash from the Final Determination to the Actual Results for 2016. Adjusting for timing differences, the increase in cash balances of £86 million will be used to support investment delivery, including the Ayrshire Resilience Scheme, Strategic Mains diversions and the emerging risks for Daldowie and Dalmarnock Waste Water Treatment Works, as set out in our 2016 Delivery Plan update and agreed by the Scottish Government. Cash forecasts to 2021 continue to be in line with those presented in our 2016 Delivery Plan update.

If you require any further information, please do not hesitate to contact either myself or Jim Mulholland.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tom Harvie-Clark".

Tom Harvie-Clark
Head of Strategy & Economic Regulation