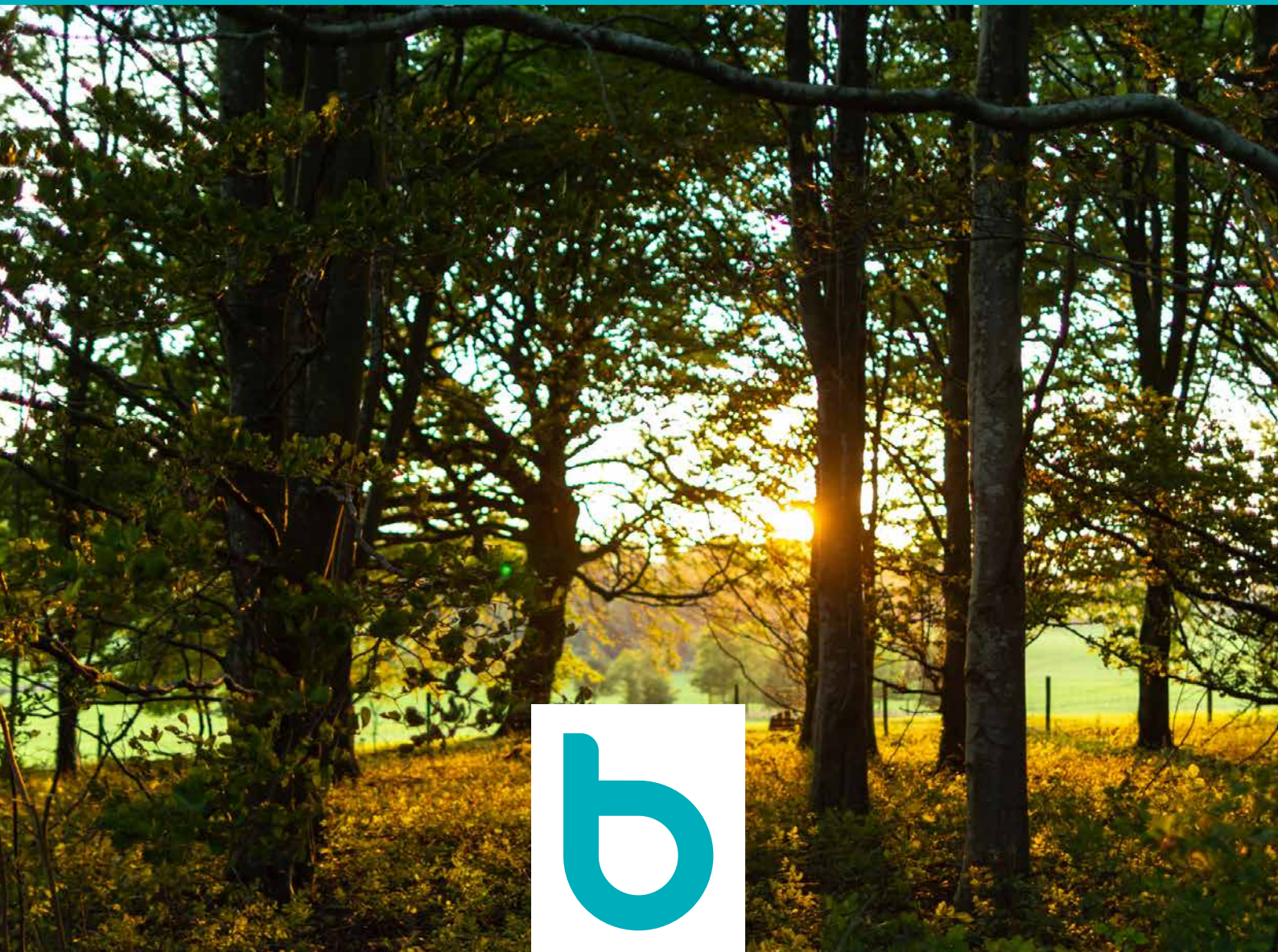


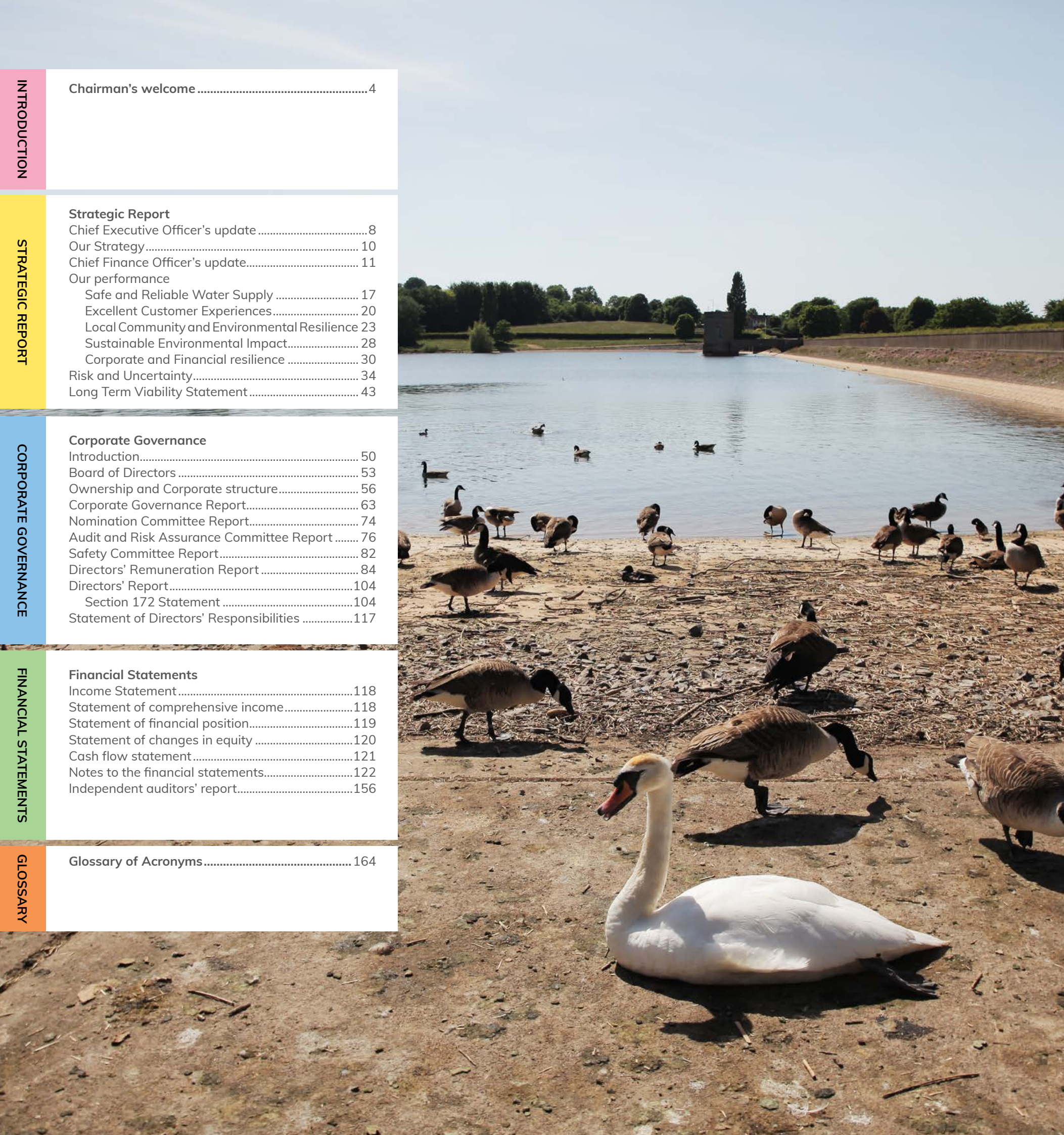
Sowing seeds for the future.

Annual Report & Financial Statements
2020/21



BRISTOL
WATER

It's what we're made of.



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What's in this report?

Welcome to our Annual Report and Financial Statements for the year ended 31 March 2021.

Our Annual Report, including the Financial Statements, aims to meet the information needs of our investors, lenders and partners to help them make informed decisions in respect of their interests in Bristol Water. We also recognise that this report will be read by a wide variety of other stakeholders including customers, suppliers, employees, analysts, regulators, governmental and non-governmental organisations. Where we believe that a topic is relevant to understanding our business and material to a number of our stakeholder groups, we include it in this report. More information is available in the regulatory Annual Performance Report and in the "Trust Beyond Water" Board statement available on our website.

Links to external reports and documents included within our Annual Report do not form part of the Annual Report.

Any questions?
If you have any questions regarding the information in this report please get in touch with us at the details below:

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legal@bristolwater.co.uk

Call
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Bristol
BS13 7AT

Chairman's welcome

When I wrote my statement for the Annual report last year confined to my home, conducting business through video calls, I can't say I expected to find myself still operating in the same way over a year later.

Like so many we've had to adjust how we work. But we've still delivered every single day for our customers. I'm immensely proud of all my colleagues at Bristol Water who have adapted to change, but especially our front-line workers who have been out in the streets keeping the water flowing throughout the pandemic. These teams have been real heroes, as they continued to deliver our high water quality standards and reduce leakage despite the uncertainties around them.

We've also seen some big operational challenges this year. One such incident, at Royate Hill in Bristol saw thousands of customers without water on the hottest day of the year. But as always the community spirit and trust in Bristol Water was clear to see and colleagues turned out to ensure we provided alternative water supplies to all those affected, but particularly those vulnerable customers.

COVID-19 changed many things, but underlying the challenges the pandemic brought, we still continued to deliver great performance for our communities in the first year of this regulatory cycle. As such, the delivery of our transformation programme, repositioning the business to deliver efficient and effective performance across the next five-year period, has been critical. It has been a challenging year to deliver the level of change required, but the hard work and effort by staff across the business in delivering this programme will reap rewards for many years to come.

The Competition and Markets Authority ("CMA") redetermination of the Business Plan, commenced in March last year and reached its conclusion in March 2021. I am pleased we can move forward with a Plan strongly aligned with our original submission and with a stronger, more resilient business as a result. Our customers continue to benefit from stretching business targets and bills that represent great value for money.

The news after the end of the financial year that Bristol Water has been acquired by the Penon Group is an exciting one. As another south west based organisation focussed on the water sector, we share many values and ambitions, as well as a passion for delivering an essential service to our customers. We look forward to working with colleagues in the Group and to continuing to deliver great service to the communities in which we operate.

Finally, this will be my final year as Chair of Bristol Water, an organisation I have been proud to lead for 9 years. I thank every single member of staff, past and present, for their hard work and dedication in delivering our essential service.

Keith Ludeman, Chairman
9 July 2021



"COVID-19 changed many things, but underlying the challenges the pandemic brought, we still continued to deliver great performance for our communities in the first year of this regulatory cycle."



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CEO update

This year we will be celebrating our 175th birthday; incredibly, since 1846, we've been making people healthier and our local economy stronger through our provision of water to local communities. We are immensely proud to have served all the generations of families throughout this period, and look forward to continuing to do so for generations to come.



Our celebrations come after a tough year for our customers and our staff. The COVID-19 pandemic presented operational and financial challenges to the Company, colleagues and communities. Keeping everyone safe and well whilst continuing to provide clean and reliable water, more than ever, essential to the health and well-being of our customers, has been at the heart of how we have responded to these challenges.

To keep the water flowing this year, we asked our staff to adapt rapidly to COVID-19 safe working practices; working remotely and dealing with the new technological and operational challenges this brought. Our staff adapted quickly to new ways of working and greater isolation. We ensured our front-line staff stayed safe and well, and our operations remained resilient in the face of the virus; implementing regular testing to monitor and support any incidences of the virus amongst our teams.

Demand for more water by households rose dramatically as we all adapted to lockdown and water was valued again as a source of health and well-being in difficult times. Demand for water shifted from schools and businesses closing down, to customers staying at home. Whether it has been: ensuring our local Nightingale hospital had a resilient, safe supply of water at the start of the pandemic; ensuring that the water was available on the highest demand day ever seen due to a heatwave; or continuing to respond and manage the day-to-day challenges, incidents and operations in exceptional times; our staff have been critical to our success in the year. I thank them wholeheartedly for their tireless efforts and immense pride in the essential services they provide; never has this been more apparent than over the past year.

But the year has not only reflected the pandemic and its challenges. As the first year of our new regulatory cycle, as well as a year in which referral of Ofwat's Final Determination to the CMA was a constant, this was a critical and pivotal year for the business.

I was pleased with the outcome of the CMA re-determination. This validated our Business Plan, reinstating our revenues to a level strongly aligned with that Plan, whilst outcomes and performance metrics still provide great value for our customers. Importantly, it also strengthened our financial position, providing a greater level of resilience to financial shocks and risks going forward.

We also implemented our plans to restructure the business, streamlining the business to drive efficiency, whilst at the same time putting in place key foundations for improving performance in the future – focussed on efficient execution but also excellent operational delivery. We are proud that notwithstanding delays in commencing our in-year transformation programme due to COVID-19, we had implemented savings by the end of the year with an annualised benefit of almost £10m. This will put us on a strong footing for the remainder of the five-year period.

We also completed the arbitration process with the Canal and River Trust ("CRT") in the year. This process was considering the CRT's claim for a significant increase in our abstraction charges from the Gloucester and Sharpness Canal. The arbitrator's final report validated our challenges, resulting in only a modest increase in costs. This outcome means that we can now focus on the future with lower risk and exposure in this area.

Operationally we continue to perform well in many areas and continue to learn and challenge ourselves in those areas where our performance could improve. It was great to see Bristol Water named by Ofwat amongst the top 4 best performers in the industry in their Service & Delivery Report for 2019/20, and by the Consumer Council for Water in the top 4 best performers in customer complaints. And once again in the current year, we are one of the best performers in the industry when it comes to leakage and we have once again outperformed our target for the year. This comes as a result of a huge amount of analysis, focus and hard work by our teams. I continue to be extremely proud of this as I know it is one of the top priorities for our customers.

Our supply interruptions performance has been challenging this year. While our drive for innovation and process improvement in this area has resulted in significant improvements to our underlying performance, three significant operational incidents

in the year resulted in our overall performance not meeting our ambitious targets. While this is disappointing, we continue to drive improvements all the time, so we are focussed on working to meet our targets going forward.

Health and Safety of our people remains the top priority for me and the Company. With the joint distractions of COVID-19 and our transformation programme, our health and safety performance has deteriorated over the past year. I, along with the Executive Team, have spent considerable time focussing on ensuring the right culture and focus throughout the organisation, and Laura Flowerdew, in her role as Deputy Chief Executive Officer ("CEO"), led our first business-wide health and safety stand down, to reiterate the importance of Taking 5 for Safety – to ensure every one of our staff goes home at the end of the day safe. This remains an ongoing focus of the Executive, and for every accident that arises, we perform root cause analysis and ensure staff are briefed on improvements and learnings coming out of the investigations.

Finally, on 3 June, we announced that Pennon Group had acquired 100% of the shares of Bristol Water Holdings Limited, a holding company of Bristol Water plc, as well as other associated companies. Pennon, and their operating subsidiary South West Water, are a hugely respected industry operator, and we are looking forward to becoming part of their group, with the many opportunities this may bring for customers, communities and colleagues alike.

I wish to take this opportunity to thank every single member of staff for the hard work during this very challenging and busy period. Without you none of this would have been possible.

Mel Karam,
Chief Executive Officer
9 July 2021





Our strategy

We’re stronger when we work together. Our willingness and desire to collaborate with others is our secret to success. No matter how big or small a company or individual, if they share our values, we’ll work with them to improve our service and the planet.



Excel at customer experience
Every part of the customer journey with us needs to be the best it can be. No matter how big or small the job, and no matter how that customer wants to interact with us.



Being trusted
Trust is everything. It is not only about maintaining legitimacy with people but them trusting us to deliver a good service at an affordable price in a manner that is sustainable over the long term.



Grow our people and our business
Our people and our partners are key to our strategy. They need to be empowered to create and deliver what our customers want. They need to shape the future and provide the services, not just the product, our customers want.



Leading efficiency
We’re committed to transforming our cost base. As we work towards service excellence and to deliver our strategy, we’re determined to find efficient methods so that we never compromise our commitment to affordable bills. In the long-term, our business objectives and the outcomes we’re working to deliver must align, and our Business Plan sets out how we plan to achieve this.

Chief Finance Officer’s update

Our business relies on strong financial foundations to remain resilient for the future. Our focus in 2020/21 was transforming our business to deliver the challenging Asset Management Plan (“AMP”) 7 (known as “AMP7”) performance targets both operationally and financially, in order for us to deliver for the customers and communities we serve.

Financial Key Performance Indicators (“KPIs”) For the year ended 31 March 2021

	2021	2020
	£m	£m
Turnover	119.5	125.5
EBITDA	48.6	47.3
Operating profit	21.0	22.7
Profit before tax	8.9	9.2
Profit after tax	6.8	0.5
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	379.1	371.6
Regulatory Capital Value (“RCV”)	550.5	560.9
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	68.9%	67.7%
Capital investment before grants and contributions	38.1	70.6





“Firstly, we are undergoing a significant transformation programme to reduce our cost base. This has delivered £7.6m of savings in the year, which annualises to £9.9m of savings next year.”

Financial performance summary

A sustainable business is underpinned by strong financial performance. Our performance in the year reflects a phase of continued transformation which has both reduced our cost base in the current year but also repositioned the business to deliver our financial outcomes for the 2020-25 regulatory period.

Revenue in the year reflects a decrease in regulated tariffs offset by inflation of 1.5% but was also impacted by the significant disruption from COVID-19. Household metered revenue increased due to customers staying at home, especially during the very hot summer, while our non-household revenue was impacted by lockdown restrictions leading to business closures and reduced consumption, these two trends materially offset each other, resulting in appointed revenues in line with expectations. Our non-appointed revenues such as fishing income were impacted by communities staying at home resulting in lower than normal levels of income in this area.

Our operating costs have reduced by 4% to £98.7m (2020: £102.8m), including exceptional costs of £2.2m (2020: £7.3m exceptional costs). This decrease in cost base reflects a number of initiatives and challenges, the largest of which are set out below.

Firstly, we are undergoing a significant transformation programme to reduce our cost base. This has delivered £7.6m of savings in the year, which annualises to £9.9m of savings next year. The costs of transforming the business (included in the exceptional items) was £2.1m.

Secondly, the Company abstracts water from the Gloucester and Sharpness Canal, under contractual arrangements with the CRT. In 2018, CRT triggered a charges review under these arrangements asking for material, and in our view, unsupportable, increases in these charges.

During the year the arbitration was completed resulting in a small increase in annual charges, to reflect underlying capital investment by the CRT in the canal. Whilst the annual increase was relatively modest, charges were backdated to April 2018 leading to £0.9m increase in costs. The backdated costs of £0.6m have been recognised this year in exceptional items.

Thirdly, COVID-19 had a significant impact in the year on our customers, our communities and the economy. This led to delays in our transformation programme so that we could ensure we ran our business in a COVID-19 safe way. It also resulted in an impact on the financial circumstances of our customers. Whilst we believe that we have not yet seen the full impact of the pandemic on the economy we estimate that it will have a material impact on our customers’ ability to pay their bills. We have increased our bad debt charge to reflect this impact, which is exacerbated by higher metered household consumption as customers spend more time at home as a result of lockdown.

Notwithstanding the challenges brought about by the COVID-19 pandemic and one-off costs arising, EBITDA improved to £48.6m (2020: £47.3m) in the year and operating profit was £21.0m, £1.7m lower than 2019/20 despite depreciation increasing by 2.4m in the year as a result of higher levels of investment in 2019/20.

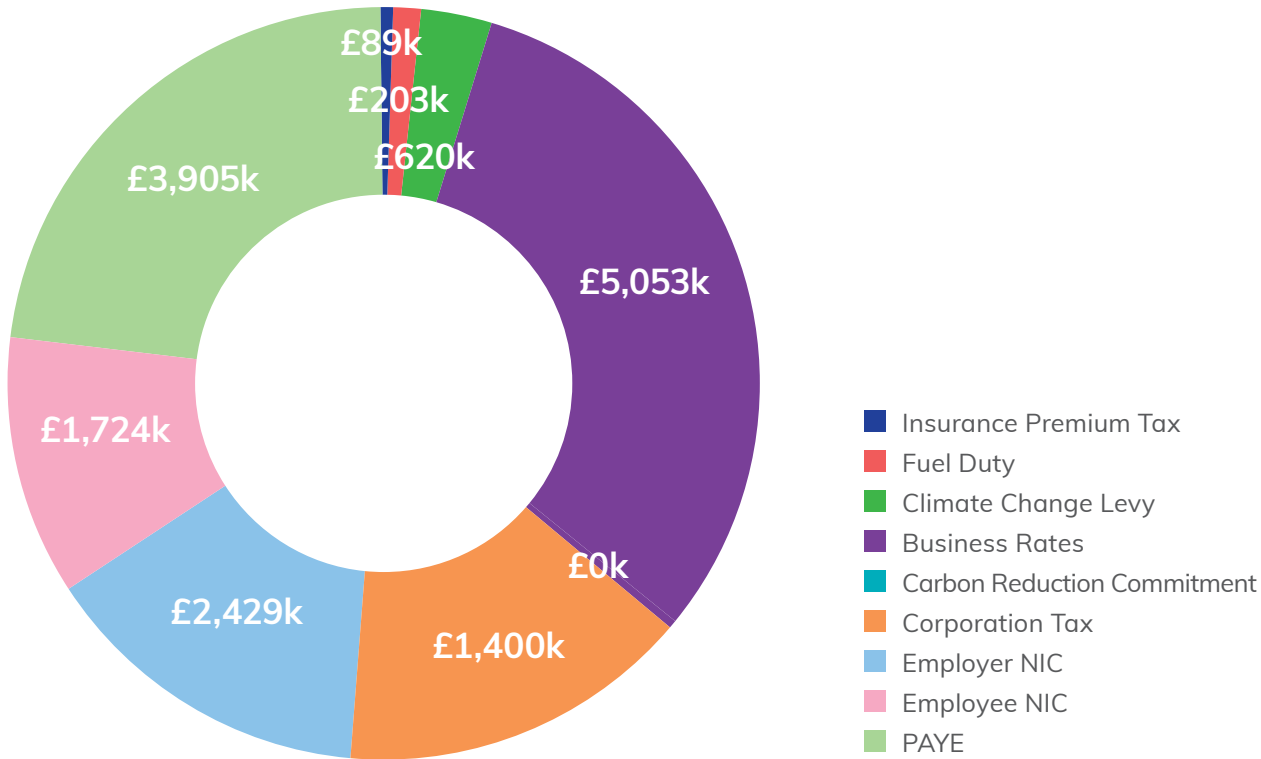
Post Balance Sheet Events
On 3 June 2021 100% of the issued share capital of Bristol Water Holdings UK Limited, the Company’s intermediate parent company, was acquired by Pennon Group plc. While this is exciting news for the Company, and we are looking forward to becoming part of their group, the acquisition has been referred to the CMA for review (as required by law) which is expected to take several months.

Taxation
As a regulated water company, operating a critical service for our customers and communities, our taxation policy is to pay our fair share of tax, being that which we are required to pay after recognising only legitimate concessions and reliefs.

You can read our full taxation policy at www.bristolwater.co.uk/about-us/our-performance/legal/company-information/

The Company’s total tax contribution extends beyond the corporation tax charge; for the current financial year, Bristol Water’s total tax contribution to the economy was £15.4m (2020: £16.1m). The largest contributors are shown in the graph below.

Figure 1: Bristol Water’s total tax contribution 2020/21



Capital investment

We continue to invest in our capital programme, however our capital spend has reduced significantly year-on-year as we invested heavily in 2019/20 in order to improve our operating performance and position the business strongly for the future. Our current Business Plan focuses heavily on maintaining our assets efficiently by carefully balancing maintenance and replacement programmes. This results in lower capital investment. In line with this the most significant capital outlay has been:

- The renovation of 11.2km of mains at a cost of £5.1m (2020: 40.3km, £19.6m);
- The completion of a key project to increase the capacity of our Croscombe reservoir (£2.1m over three years), adding resilience to our network and ensuring we have the ability to meet increased demand; and
- Continuing to drive investment in stop taps, meters and similar assets that are key to the performance of our network.

Net debt and gearing

We use the water bills paid by our customers and debt from financial markets and institutions as the main source of funds to finance our operations and capital programme. Our practice is to maintain a debt portfolio with mainly long dated maturities reflecting the long-term nature of the Company's asset base. However, we also maintain a number of revolving credit facilities with shorter maturity dates, the shortest of which (a facility of £15m of which £9m is currently drawn down) will need to be repaid in the year 2021/22. This repayment will be made from existing debt facilities.

We drew down an additional £6m of debt during the year to finance our capital investment programme.

We actively manage our gearing ratio and maintain a headroom margin to mitigate adverse impacts from risks and uncertainties. Our RCV reduced in the year to £550.5m (2020: £560.9m) reflecting inflation of £5.5m and net runoff of RCV during the period of £15.9m. This had the impact of increasing our gearing slightly from 67.9% to 68.9% (excluding our preference shares).



Dividends

Our dividend policy is to pay a level of ordinary dividends that reflect efficiency, management of economic risk and delivery of performance commitments to customers, comprising:

- An annual level reflecting the dividend yield (3.2%, with 1.3% p.a. real growth) assumed in our Business Plan.
- Adjustments to reflect the level of gearing variation from the level of equity return in our Business Plan (4.5%), where this reduces the amount of dividend below the level described above.
- Adjustments to reflect the actual outcome and expenditure performance of the business, with reference to our agreed Business Plan.
- An amount equal to the post-tax interest receivable from Bristol Water Holdings UK Limited, a UK parent company, in respect of intercompany loans.
- In addition, annual dividends paid on irredeemable preference shares which are considered debt on the balance sheet will be paid, but are shown within finance costs rather than dividends.

Further, we will not pay out dividends if:

- 1.They impair the ability to finance Bristol Water's appointed activities;
- 2.They impact on key financial ratios consistent with the need to maintain an investment grade credit rating;
- 3.They adversely impact employees

Our Return on Regulated Equity ("RORE") for the year after the adjustments detailed above was 3.77% which would imply a dividend of around £6.0m net of any intercompany interest would be appropriate.

Each year, a dividend is paid equal to the post-tax interest receivable from Bristol Water Holdings UK ("BWHUK"), in respect of intercompany loans. As BWHUK then pays the related interest back to Bristol Water, this transfer does not result in any cash impact on the Company. In 2020/21 the dividend amounted to £1.6m (2020: £3.3m) which contributed only one payment in respect of the intercompany interest due. The remaining payment to the Company was met by funds held within the other group companies.

In 2020/21, an additional dividend was paid of £4.4m (2020: £3.0m). As with last year this dividend was used to partially repay the intercompany loan which is held between Bristol Water Holdings Ltd and the Company, and so was returned to the business in the year in line with the shareholders' commitment to invest in performance improvement.

Finally, annual dividends of £1.1m (2020: £1.1m) continued to be paid on the irredeemable preference

"We use the water bills paid by our customers and debt from financial markets and institutions as the main source of funds to finance our operations and capital programme."



shares. The irredeemable preference shares are shown as debt in the balance sheet, and the dividend is therefore shown as a finance cost in the income statement.

Further details of how our regulatory performance links to the dividend we pay based on this policy is set out in our Annual Performance Report.

Pensions

Pension arrangements for employees were historically provided partly through our membership in the Water Companies' Pension Scheme ("WCPS"), which provides defined benefits based on final pensionable pay. We have a separate section within the WCPS for the regulated water business; the section was closed to new employees some years ago.

In 2018/19, a buy-in of the scheme was undertaken, and as a result the scheme assets were replaced with an insurance policy which matches the pension scheme's liabilities. The Company is working with the pension trustee and also insurers to effect a buy-out, whereby the insurer will take on the responsibility for the scheme liabilities. The completion of this process will substantially reduce balance sheet risk whilst providing long term benefit to members by fully securing their benefits and entitlements.

The process has taken longer than anticipated as a result of a number of judgements required to determine methodology and scope of the Guaranteed Minimum Pensions ("GMP") equalisation requirements which sought to ensure that all members receive a GMP on a consistent basis. As a result the pension scheme has not yet been wound up and bought-out and this is expected to complete during the 2022 calendar year.

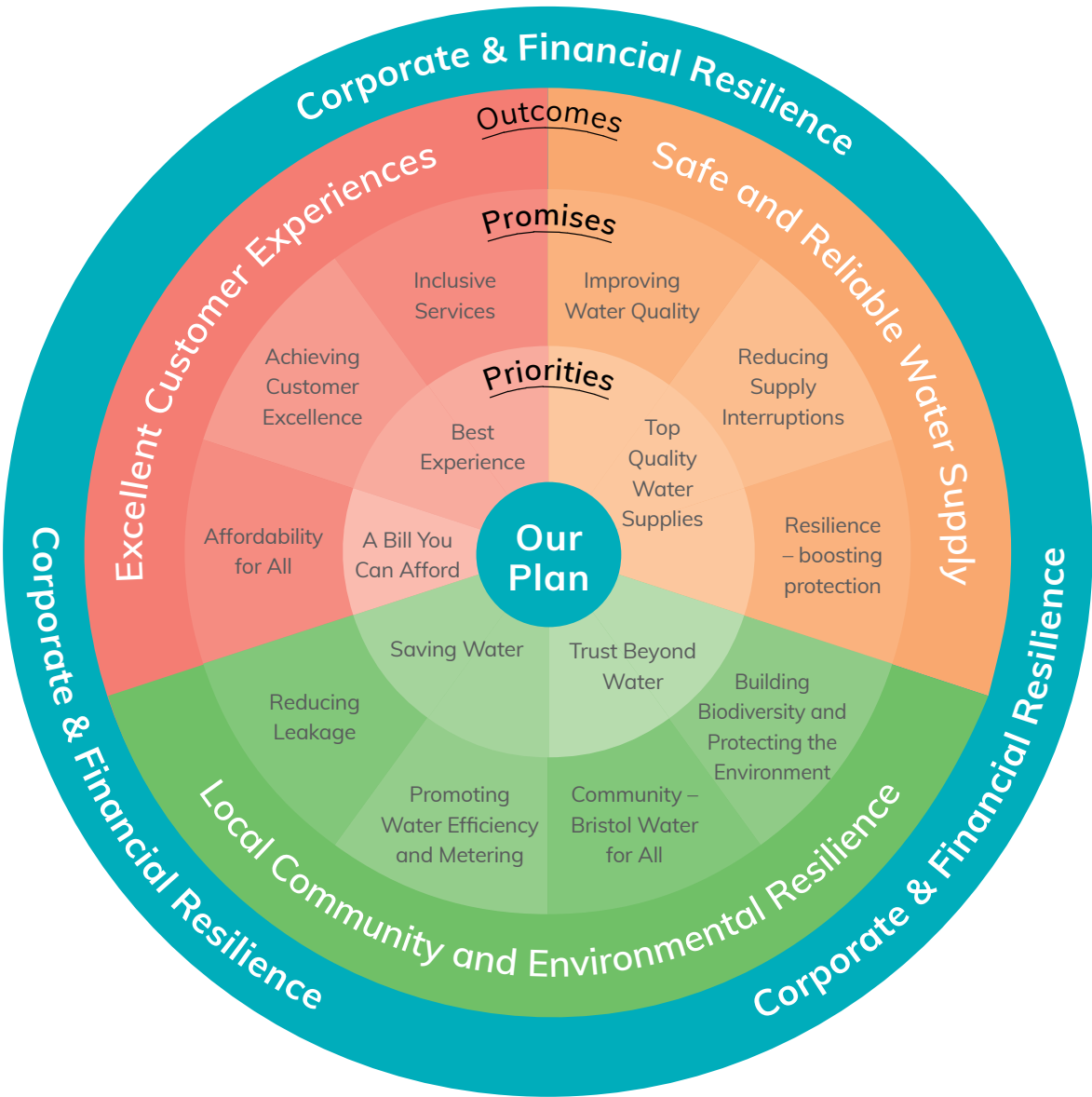
The actuarial valuation under International Accounting Standard 19 (IAS 19), and therefore Financial Reporting Standard 101 at 31 March 2021, shows a net pension surplus of £9.1m which has been recognised in the financial statements (2020: £9.7m). As the scheme has been closed to future accrual the surplus cannot be recovered through on-going contribution payments. The pension asset is shown net of a 35% income tax rate which would be applicable if the funds were repaid to Bristol Water from the pension scheme.

Further financial information in relation to defined benefit and defined contribution pension schemes is disclosed in note 16 to the financial statements.

Our performance

Our Business Plan for 2020 - 2025

The below chart summarises our Business Plan in terms of our priorities, our promises to customers and the outcomes we will achieve.



Safe and Reliable Water Supply

Improving water quality
Our water consistently achieves exceptionally high compliance against some of the most rigorous testing standards in the world. Our aim is to supply our customers with clean, safe water and comply with stringent regulatory standards. We do this through our Drinking Water Safety Plan approach, which helps us to reduce and manage any risks to water quality.

Our Water Quality team collects samples 365 days a year from across our 2,400 square kilometre supply area to ensure we comply with the sampling regime, with no exemptions applicable, for example, for weather conditions. We have continued to maintain our water quality standards, as well as sampling regime, despite the challenges posed by COVID-19, thanks to our professional and dedicated staff.

There are statutory requirements for regularity and frequency of sampling and these were met in the calendar year.

CRI
Our target of 0 for CRI was not achieved in the year. We would have met our internal target of 1.5,

but there was a Coliform Bacteria failure in one of our largest service reservoirs on 3 December which meant that we exceeded this target. This contributed more than 50% of the total CRI score for the year.

Negative contacts
The quality of our water is the most important commitment for us and targets set are very stretching. Customer contacts in respect of water quality fall into two categories, those for appearance and those for taste and smell.

Contacts for appearance remains the greatest proportion of overall contacts, and is affected by activity on the network as it includes aeration (where a significant amount of air is present in the water) and brown water (where iron particles from pipes may get dislodged). As a result of a significant number of bursts and incidents in the network our appearance contacts did not achieve the target despite being broadly in line with prior year.

We are happy to report that we exceeded our target for Taste and Smell.

Turbidity
We are also happy to report that there were no turbidity issues in the year.



2,400
Our Water Quality team collects samples 365 days a year from across our 2,400 square kilometre supply area

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Compliance Risk Index* Number	1.50	3.02	2.31	No
Number of negative customer contacts regarding water quality — Appearance Number / 1000 population	0.83	1.07	1.03	No
Number of negative customer contacts regarding water quality — Taste and Smell Number / 1000 population	0.40	0.35	0.39	Yes
Turbidity Number	0	0	0	Yes

*Whilst we target full compliance and the CRI target is zero, for monitoring purposes we set an internal target of 1.5
Note: these metrics are all measured from January to December 2020 in line with Drinking Water Inspectorate ("DWI") methodology

Reducing Supply interruptions

Supply interruptions

Customers value a resilient and reliable water supply. So, when supply interruptions do happen, they want their water back as soon as possible. We measure this as the total number of minutes customers have been without water longer than three hours and divide this by the total average number of properties in the year.

We have made a lot of changes in our approach over the past couple of years. We have invested heavily in our smart network and increased the coverage of pressure loggers to allow us to proactively recognise when incidents may be about to occur. We have found new ways to ensure customers still get water, even when an operational incident arises. This may be, for example, by re-zoning (getting water from a different area of the network) or bypassing damaged pipes. We have also continued to invest in replacing old mains pipes to ensure that the risk of incidents is reduced.

In the unfortunate situations when Bristol Water cannot achieve these high standards, Alternative Water Supply solutions are in place (for example through the use of tankers). This helps protect the vulnerable and provide an intermediate solution for the community.

Disappointingly, despite great steps forward in our operational approach, we experienced three significant incidents in the year which resulted in our performance being significantly outside of our target. Alone, these events accounted for 25.10 minutes of interrupted supply. Performance for the year excluding these events would otherwise have resulted in a performance of 5.12 minutes compared to the target of 6.50 minutes.

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Supply Interruptions Minutes per customer	6.50	30.29	9.28	No
Mains repairs Number per 1000km	138.4	150.1	115.5	No
Risk of low pressure Number of properties	65	57	57	Yes
Unplanned non-infrastructure maintenance Number of jobs	3,272	3,134	3,327	Yes

Mains repairs

When our mains get damaged, or fail, it is vitally important that these are repaired to ensure that we do not waste valuable water and that customers are kept in supply. We measure the number of mains that we have reactively repaired in the year and divide it by the total length of mains to indicate the performance of our mains network. Through late December into early February, we had several freeze-thaw events where our metal pipes were put under significant strain through contraction in the cold, followed by rapid expansion in the thaw. This causes them to fail. Prior to December, the average number of repairs per 1000km was 7.7 each month (1.8 ahead of target). However, while this was forecast to increase over the remainder of the year, actual performance of 14.3 in December, 40.3 in January and 23.5 in February was significantly above expectations demonstrating the material effect of the weather on the performance of our network.



Resilience-boosting protection

Risk of severe restrictions in a drought

While our drought risk measure did not meet our target, it has improved significantly year-on-year. The increase in risk is as a result of service outages in the year, many of which were planned and would not have been carried out had the year been drier. When the impact of a non-essential use ban drought order is taken into account the risk to customers reduces to 48.68%.

Unplanned Outage

Our unplanned outage continues to remain low at 0.20% of peak week production capacity, which is well within the committed performance level of 2.34%. We aim to fix all unplanned outages within the 8-hour working day.



	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Risk of severe restrictions in a drought 25-year average percentage of customers at risk of experiencing severe restrictions in a 1-in-200 year drought	38.0	56.9	85.1	No
Unplanned Outage Percentage temporary loss of peak week production capacity	2.34	0.20	0.72	Yes

Excellent Customer Experiences

Affordable for All

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Percentage of households in water poverty Percentage	0	1	0	No
Value for Money Percentage	80	83	75	Yes
Void Properties Percentage	1.90	1.80	2.54	Yes

Percentage of households in water poverty

This performance commitment ensures we help those customers on the lowest incomes and experiencing the most serious financial difficulties. To do this we track the percentage of customers in 'water poverty'. Water poverty is defined as the percentage of customers within the Company's supply area for whom their water bill represents more than 2% of their disposable income (defined as gross income less income tax).

We offer three discounted tariffs to make sure we can help customers who find it hard to pay their water charges, with 20,419 customers receiving assistance through these measures, an increase of 8% over last year. In addition to the social tariff schemes, 3,407 households are currently benefiting from our 'Restart' scheme to help clear their water bill debt.

We also offer metering and water efficiency support to help reduce customers' bills and flexible payment plans to customers who may also need support paying but do not need as much assistance as a social tariff.

These measures have been more important than ever with the impact of the global pandemic.

COVID-19 has impacted our customers by not only decreasing disposable incomes, but also due to increased bills for our metered customers due to home working and school closures. As a result of this our end of year figure has increased from 0% to 1%, above our target of 0%.

Value for money

Overall, 83% of our customers rated the service they receive from Bristol Water as either very good or good compared to the 2020/21 target of 80%. Further only 3% of our customers rated the value for money of the service they receive as either poor or very poor.

Void properties

We have reduced the percentage of our properties that are void by nearly 30% on average year-on-year despite the pandemic leading to an increase in void properties at the start of the financial year. Lower voids ensures that customers pay lower bills overall as a result of more customers over which to recover our revenue.



20,419

customers receiving assistance through discounted tariffs.



3,407

households are currently benefitting from our 'Restart' scheme to clear their debt



Achieving Customer excellence

C-MeX

C-MeX has been used to compare water companies' customer experience levels. Bristol Water's overall C-MeX score increased to 83.31 from 81.22 last year (using this year's methodology) which improved our industry rank from 8th to 6th.

We continue to focus heavily on improving C-MeX, as we expect the water industry as a whole to continue to improve and therefore improving our industry ranking becomes even harder to achieve. Our areas of focus include initiatives such as: building our presence in our communities with projects such as the Bristol Water Foundation (a fantastic suite of educational resources targeted at educating the next generation on the value of water resources and the environment); improvements in our web site; and continuing to drive the improvements in our customer service and delivery by simplifying our processes and putting customers' experience at the heart of our decision making. This will address areas of improvement needed in both our C-MeX and D-MeX scores.

D-MeX

Our final D-MeX performance in the year was a ranking of 8th. Whilst this did not meet our ambitious target of 5th, it is still promising that we achieved an above average sector performance, despite the challenges of achieving this and our transformation during the year.

Total Customer Complaints

Our total customer complaints per 10,000 of 58.9 is 33% lower than our target. Complaint resolution and handling is a key focus of our customer experience strategy; every complaint is handled by our Customer Care Team where a designated member of staff ensures that the complaint is resolved. The team provides root cause analysis which feeds into our learnings and future improvements to prevent repeat complaints. Our performance was industry leading in this area. This in turn ensures we reduce the chance of causing customers to complain.

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Customer Measure of Experience ("C-MeX") Score	83.59*	83.31	81.22 (pilot methodology)	No
Developer Services Measure of Experience ("D-MeX") Score	88.44*	86.81	84.92 (pilot methodology)	No
Total Customer Complaints Per 10,000 customers	87.3	58.9	73.4	Yes

*These targets were derived from an assumption of the score required to achieve top 5 ranking

Inclusive Services

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Priority Services Register ("PSR") Reach Percentage	3.1	2.6	1.5	No
Percentage of vulnerable customers Percentage	85	82	N/A	No

PSR
We have registered an additional 5,823 households on the PSR in 2020/21, taking the number registered from 7,583 to 13,406. Despite this 77% increase in registered households, the overall position remains below our target at 2.6% compared with a target of 3.1%.

We have done significant work to reach out to customers who may be eligible for priority service, adjusting our communication as a result of social distancing and moving to virtual coffee mornings and paid social media adverts to support our awareness campaign.

Percentage of satisfied vulnerable customers
82% of our vulnerable customers rated the service they receive through the PSR as either very satisfied or satisfied compared to the 2020/21 target of 85%. Although we have missed the committed target, only seven (2%) of those customers expressed being dissatisfied or very dissatisfied with the service they received.

This measure is an indication of our progress made against our published Vulnerability Action Plan, which is updated during our mid-year report and reviewed by the Bristol Water Challenge Panel. Our latest Vulnerability Action Plan update can now be found in our Annual Performance Report 2020/21.



Local Community and Environmental Resilience

Building Biodiversity and Protecting the Environment

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Biodiversity Index Index	17,668	17,668	17,670	Yes
Raw Water Quality of Sources Kg of phosphorus	109	155	N/A	Yes
Waste disposal Compliance Percentage	100	98	98	No
Water Industry National Environment Programme ("WINEP") Compliance Percentage	100	100	100	Yes

See Sustainable environmental impact section for commentary.

Reducing Leakage

Efficient use of resources by company
We exceeded our leakage target in the year representing a significant reduction year-on-year as well. We are proud of our record in this area, and believe it reflects an outstanding performance by all the teams involved during the year, particularly in the context of COVID-19 and the operational challenges this brought. In addition, the increase in mains burst in December through to February were managed quickly and effectively to minimise the impact on leakage.



	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Actual Leakage Total leakage in million litres per day (ML/d)	36.40	35.52	37.0	Yes

Promoting Water Efficiency and Metering

Per Capita Consumption (“PCC”)
PCC measures the average amount of water used by a person in a domestic setting and excludes non-domestic usage. COVID-19 and the restrictions resulting in home working and school closures resulted in an increase in the amount of water consumed at home, with customers switching from offices, schools and similar locations to be at home, particularly during the hot summer period. As a result, despite the higher numbers of metered customers, who tend to be more conscious of consumption, as well as industry-wide awareness programmes, PCC remains above our targeted levels.

Efficient use of water by customers
We do everything we can to encourage our customers to use less water because using less water means there is less impact on the planet and makes our service more affordable for people. Metering is one of the most effective ways to do this. Water meters help people manage their water use and ensure accurate billing for customer satisfaction.

We measure this by meter penetration which is the percentage of customers who have a water meter installed at their property. Following our ‘Life’s sweeter with a meter’ campaign, we have continued our ‘Peter the Meter’ campaign, continuing to encourage customers to take up the benefits of a meter. COVID-19 has, however, heavily impacted this drive with activity limited until September 2020 due to lockdown restrictions and the measures we have put in place to protect our customers and colleagues. Despite these setbacks, the team have delivered against our internal target of 60.14% achieving 60.26% penetration. There remain significant challenges to overcome in order to meet the challenging target of achieving 75% meter penetration by the end of 2024/25.

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Per Capital Consumption Litres per person per day	143.3	161.1	146.4	No
Domestic Meter penetration Percentage	60.14	60.26	58.98	Yes



“We do everything we can to encourage our customers to use less water because using less water means there is less impact on the planet and makes our service more affordable for people.”



Community – Bristol Water for All

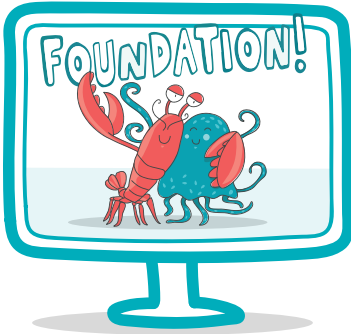
	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Local Community Satisfaction Percentage	85.0	88.2	N/A	Yes

Our local community satisfaction target recognises the importance of working together with local stakeholders to tackle jointly the issues which the city faces. For us this means challenging ourselves on the way that we work to deliver a safe and reliable supply to customers, so that we can maximise additional economic, environmental and social value. This approach is underpinned by our social contract, which provides the framework and governance process for the delivery of this wider public value. The process is overseen by the Board and is independently challenged through designated quarterly meetings with our stakeholder panel, known as the Bristol Water Challenge Panel.

We are pleased that our stakeholders have recognised the positive contribution that we make to our communities

through their survey responses, resulting in an overall satisfaction score of 88.2% above our target of 85.0%.

It has been a challenging year for our community activities due to restrictions associated with COVID-19. We have however, adapted by finding virtual ways of working to deliver community benefit. A good example of this is our new Bristol Water Foundation website, which provides over 50 online resources, including educational resources for primary school students linked to the national curriculum, and careers and skills resources for secondary school students. These resources were particularly well utilised when schools were closed and parents and children went online to find home schooling resources.



Other highlights from our social this year include:

Resource West

We are taking a community leadership role for broader issues of resource efficiency and have created partnerships with organisations such as Bristol Waste, Bristol Energy, the University of the West of England, United Utilities, Western Power Distribution and Bristol Pay CIC. We've kicked off a three-year project starting with a six-month trial of circa 16,000 properties. This recognises the need for cultural change in resource consumption, together with combined support for customers who struggle to pay their bills.

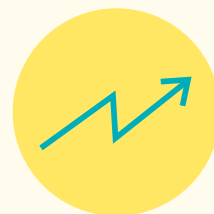
Our youth board

We host an annual Youth Board programme which brings the views of young people into our decision making, as well as providing development opportunities and business experience for the young people involved. This year we held an online Youth Board which was focussed on helping us to understand the lives of our future customers. They told us that equality and inclusivity, protecting the environment, the economy (the

impact of leaving the European Union ("EU") and job prospects), together with recognising and addressing mental health were all important to them. They were supportive of our social contract and gave us lots of ideas to continue to build our social purpose.

Supporting vulnerable customers

In response to the pandemic we increased our focus on providing a service to all those vulnerable customers who need our support the most. It has heightened our awareness of vulnerabilities and will continue to shape our work. We have seen an increase of households on our Priority Services Register to over 13,000 households.



13,000

We have seen an increase of households on our Priority Services Register to over 13,000 households



12

Over the year we supported 12 different projects which benefit our local communities.

The Bristol One City Plan

By working in partnership we have aligned our strategy to One City Carbon, Biodiversity and Economic Recovery & Renewal action plans. We are now developing our own carbon route map to align with the One City Plan.

Academic partnerships

We have provided learning experiences to a number of university students through work-based placements. We have also continued to work in an international academic partnership on our Sustainable Urban Nexus (SUNEX) project, which explores the circular economy in relation to water, energy and food in urban regions.

Together for good

This is a monthly competition which provides £500 to a charity or community scheme – so over the year we supported 12 different projects which benefit our local communities. Most recently we have supported, Wickwar out of school club, St Philips Marsh Nursery School, Cashmore Early Years Centre and Brain Tumour Support.

Further detail on the benefits delivered through our social contract can be

found in our published Social Contract Benefit and Transparency Report at <https://www.bristolwater.co.uk/about-us/our-story/social-contract/>

Our 175th Anniversary

2021 will be Bristol Water's 175th birthday – so that's 175 years of providing a service to our communities. For our founders their motivation was to improve the health of the people who lived in Bristol. Bristol's citizens had a life expectancy of well below 40 years at a time when cholera was a prevalent disease due to polluted water supplies.

175 years on, the challenges we face as a community are very different. However, we continue to be driven by our social purpose; to have a positive impact on our customers, communities, employees and the environment. This year we will be recognising the work of our founders, and what we have achieved over our long history. We will also be asking our stakeholders to look to the future with us and help us shape the role that we play in society long into the future.



The full report can be found at: <https://f.hubspotusercontent30.net/hubfs/7850638/Bristol%20Water%20Online%20Youth%20Board%202020%20-%20Debrief%20Report.pdf>



Sustainable Environmental Impact

One of the ways in which we monitor our protection and enhancement of the natural environment is through our innovative approach called the Biodiversity Index. This natural capital accounting tool quantifies a biological value for our sites and creates a “direction of travel” for the way we manage the natural assets on our property. This data helps us to protect and enhance our natural environment by using the Index metric to quantify the impact of our actions on the environment. The Biodiversity Index is a natural capital calculation tool and is a method we will continue to develop through the new AMP period. This March 2021 measure remained in line with March 2020, mainly due to the maintenance work we delivered to prevent wetland assets deteriorating from the encroachment of an invasive plant species. We have also delivered maintenance of a woodland asset providing coppicing and scrub clearance work.

Streamlined Energy & Carbon Reporting

Protecting our environment for the future

In the UK we’re expecting hotter drier summers and warmer wetter winters, as well as more extreme weather events with floods, storms and heatwaves of greater severity and frequency, and sea level rise. Climate change will have a material impact on the water industry as it affects both the available water from the environment and customers’ need for water.

We’re seeing rates of change far greater than those experienced in recent history. Although we anticipate that climate change will reduce the water we have available for public water supply, the integrated nature of our supply network and the range of water sources

we have available both help to mitigate this impact. We therefore anticipate that the impact of climate change on the water available for use in our area over the next 25 years at least is likely to be relatively low.

Climate change is a huge challenge for society, and even though our water supplies appear to be resilient for the future, we still expect big changes to how we work in order to keep water costs affordable.

Our carbon footprint

The vast majority of our carbon footprint is from the energy required to treat water to a safe standard and transport it to our customers. Whilst we continue to find ways to treat and distribute water more efficiently, such as through our latest pump optimisation software, the greatest opportunity for us to reduce carbon is to encourage and support our customers to use less water – in particular less hot water in their homes and businesses.

We think that cultural change, rather than shorter term behavioural change, is required to deal with the climate and ecological crisis that society faces – using water thoughtfully needs to become a new social normal. So, as part of our response, we are investing in an education programme and working with our stakeholders to find the best way of getting our messages to younger generations. In addition, we are working with other local utility providers, retailers, education charities and environmental experts to develop a joint education campaign so that we deliver a clear overall message to young people on water, energy and waste. This change in culture will help to influence their parents, landlords, employers and education providers who need to help deliver the lasting changes that we need to make. Building this shared connection to society is the distinguishing feature of our social contract approach.

The aim of the water industry is to achieve net zero carbon emissions for the sector by 2030. As energy-intensive businesses, we have an important contribution to make in tackling the causes of climate change. We can make a real difference through measures such as greater water efficiency, buying green energy as well as generating renewable energy ourselves, planting trees, restoring peatland and working with our supply chain.

2020/21 performance

Energy efficiency is vital to business productivity and supports the transition to a low-carbon business against the backdrop of climate change.

- Our gross operational emissions for 2020/21 were equivalent to 20,791.3 tonnes CO₂, defined by the scopes below:
- Scope 1 (direct emissions): use from transport (where the journey begins or ends in the UK)
 - Scope 1(direct emissions): Combustion of natural gas
 - Scope 2 (indirect emissions): Electricity purchased and used for operations (not including energy sold on)
 - Scope 3 (other indirect emissions): Energy use and related emissions from business travel in rental cars or employee owned vehicles where the Company is responsible for purchasing the fuel.

Looking forward to 2021/22

We continue to implement our programme of improvements to deliver operational efficiency and a number of significant capital investment schemes that aim to reduce overall energy consumption. Most significantly, a whole network of automated pump scheduling and optimisation system to reduce the amount of energy we use to produce and move water to our customers.

As part of our drive to meet challenging efficiency targets for AMP7, we are reducing the electricity that we import from the grid by installing gas generators at our Purton treatment works, our biggest energy consumer. This will marginally increase our carbon footprint and we will seek to mitigate this by seeking to source renewable and environmentally sustainable opportunities across our operations.

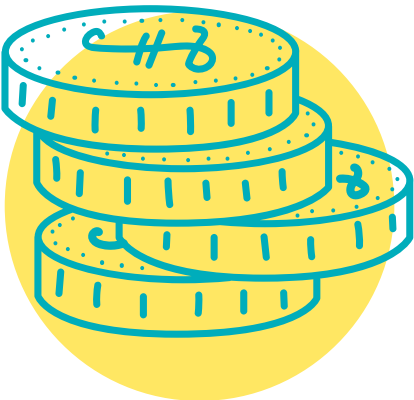


Scope 1,2 & 3 carbon emissions

Source	2020/21		2019/20	
	tCO ₂ e	%	tCO ₂ e	%
Electricity — grid	18,855.2	90.7%	20,757.5	89.1%
Gas	33.3	0.2%	97.3	0.4%
Transport	1,585.8	7.6%	1,938.9	8.3%
Diesel	317.0	1.5%	305.0	1.3%
Process & fugitive	0.0	0.0%	192.7	0.8%
Total	20,791.3		23,291.4	
Energy consumption	82,675,302	kWh	85,394,751	kWh
Intensity ratio — kg of CO ₂ equivalent per capita	16.85	kgCO ₂ e/capita	18.98	kgCO ₂ e/capita

Corporate and Financial resilience

Our corporate and financial resilience underpins the delivery of our plan, maintaining customer trust by: providing effective corporate governance and being transparent on how we are performing; looking after and developing our people; managing our finances in a prudent and careful way; and providing a framework for resilient and innovative services.



Investor Confidence

Investor confidence is essential for our business and industry. The profile and type of spend means that it is important that we finance some of our expenditure through loans and shareholder equity rather than through our customers' bills so maintaining financial health to attract such investment is an important outcome.

An important measure of this is our public rating which is performed by Moody's. Last year we were downgraded from Baa1 to Baa2 (negative) as a result of the uncertainty of financeability from the Ofwat final determination, which was at the heart of our referral to the CMA during the year. After the CMA redetermination was announced Moody's confirmed that our rating was stabilised to Baa2 (stable) indicating the increased confidence in our financeability arising from the redetermination.

After the acquisition by Pennon was announced, Moody's further changed this outlook to positive.

The regulation of the water industry determines both an efficient level of gearing, as well as efficient levels of financing

costs for debt and equity returns. Our gearing is higher than the level assumed by Ofwat but remains at a relatively low level compared with the majority of companies in the industry.

To be a sustainable business, it is important that returns are fair and sufficient to attract investors to fund the investment required. Ofwat measure our financial performance using a metric called return on regulated equity ("RORE"). This ratio provides a measure of the value of companies' earnings relative to the equity component of the regulatory capital base. The RORE for 2020/21 was 3.77%, lower than the 4.43% assumed in the CMA determination. Our operational performance in the year has resulted in performance penalties of £1.8m, reducing our notional return calculated by this measure. These penalties will not impact on our reported financial performance until 2022/23, and are likely to be reduced to £1.4m with rewards for D-MeX and C-MeX and per capita consumptions deferred for Ofwat's later consideration due to COVID-19. Further details are provided in our Annual Performance Report.

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Proportion independent NEDs Percentage	50	50	50	Yes
Credit rating Moody's rating	Baa2 (stable)	Baa2 (stable)	Baa2 (negative)	Yes
Financial Resilience - Gearing – Debt (Excluding preference shares) divided by RCV Percentage	70.0	68.9	67.7	Yes
Fair returns to investors - Percentage RORE (average for AMP period) Percentage	4.43	3.77	4.70	No



Staff Confidence

Health and Safety

Health and Safety of our people remains the top priority for the Company. However, our health and safety performance has deteriorated over the past year with four RIDDORs reported against our target of none. In response to this we led our first business-wide health and safety stand down during the year, to reiterate the importance of Taking 5 for Safety. Our response to accidents also remains strong, and for every accident that arises, we perform root cause analysis and ensure staff are briefed on improvements and learnings coming out of the investigations.

Skilled workforce

Our aim is to have the "right people, in the right place, with the right experience, at the right time". We're working hard to ensure that we're seen as an 'employer of choice' and that our people share our values and objectives. Our appraisal process continues to provide all employees with an opportunity to agree meaningful personal objectives to support the wider business objectives and to demonstrate key behaviours and these are regularly reviewed throughout the year. Everyone in the Company shares the same business targets for the annual bonus scheme.

From feedback through our Employee Engagement Survey we recognise that for many of our people personal development is very important. To support this we encourage and train line managers to have discussions about what this might include. For

some it might be an opportunity to improve the core skills needed for their job role, for others it might be additional skills to support their future ambitions. It's important that the development opportunities offered are relevant to the individual and that they deliver the outcomes needed. Our internal Talent team deliver many different opportunities for learning and development through structured courses, such as our management L.E.A.D (Learn-Engage-Apply-Develop) programme, as well as providing bite-sized learning opportunities through channels such as webinars, podcasts, e-learning and TED talks which allow individuals to access these at the point of need.

Employee volunteering in support of our social contract initiatives is another way in which we support our people to develop, and staff across the business have been active volunteers in their communities, despite the challenges COVID-19 has sometimes brought.

Gender pay gap

Since 2017, all UK organisations with more than 250 employees have a legal obligation to publicly report on their gender pay gap.

The gender pay gap measure is the difference between the average earnings of men and women, expressed relative to men's earnings.

	2020/21 target	2020/21 actual	2019/20 actual	Target achieved
Number of accidents reportable to Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR") Number	0	4	2	No



There are four measures calculated to report on the pay gap. A mean pay and bonus gap measure and a median pay and bonus gap measure. The table below shows the figures for Bristol Water from 2020 and 2019.

Snapshot Date: 5 April 2020

Mean Gender Pay Gap **13.3%**

Median Gender Pay Gap **15.0%**

Mean Bonus Gender Gap **48.9%**

Median Bonus Gender Gap **29.8%**

Snapshot Date: 5 April 2019

Mean Gender Pay Gap **14.4%**

Median Gender Pay Gap **20.6%**

Mean Bonus Gender Gap **47.2%**

Median Bonus Gender Gap **21.4%**

Our gender pay gap performance has improved year-on-year which is pleasing and is partly due to the increased focus to ensure we maintain pay parity as well as the appointment of female senior staff over recent years.

Even with the improvement that has been made, the gap is still higher than we would like, particularly the bonus gap, and it is important to understand the reasons behind this to focus on reducing it further.

We have a higher proportion of males fulfilling roles which attract shift premium payments, as well as more men occupying senior roles within the organisation. These senior positions attract higher rates of pay and bonus which contribute to our gender pay gap. During the period a number of senior females left the Company and therefore were not counted as relevant employees for bonus gender pay gap which resulted in a higher than normal median figure.

It's important to note that the gender pay gap figures do not mean we are paying our male and

female workforce different amounts for the same work, but it does highlight that there is still more we need to do to reduce the gap.

Areas we need to focus our efforts include:

- Increasing the overall number of women working for us. Currently only 32% of the workforce is female; and
- Attracting and promoting more women into the upper pay quartile roles, as currently 78% of the workforce in this pay bracket is male.

Steps already being taken to help close the gender pay gap include:

- Training to support equality and diversity awareness including unconscious bias;
- Expanding engagement with local schools to talk to students about prospective careers in the water industry; and
- Participating in events such as 'women in work' and 'women in engineering' to help raise awareness of the varied and challenging roles we have available. We are also pleased to support some of our colleagues who have volunteered to be mentors to university students.

The full report can be found on our website and includes further detail on our workforce split, pay distribution and what else we're doing to address the gap.

Diversity

We aim to be a fully inclusive employer and our focus internally is on promoting equality and inclusion throughout our people policies, procedures and practices which align to our core values. As an employer in Bristol, we are acutely aware and conscious of challenges we have as a society in ensuring equality, diversity and inclusion throughout all aspects of what we do. We're committed to employment policies which follow best practice as set out by The Advisory, Conciliation and Arbitration Service and which are based on equal opportunities for all employees. We are a member of the 'Social Mobility Pledge' and the 'Energy and Utility Skills Inclusion Commitment'.

In March this year we ran our first Diversity, Equality and Inclusion open mic week with a number of guest speakers and an interactive session with the Board. We have also set up a Women's Network group and a LGBTQ+ Network both of which are chaired by employees.



In attracting new talent to the organisation, we make sure that full and fair consideration is given to all applications. Our key focus is on having the best talent at all times and that means selecting on the basis of skills, experience and attitude. Having colleagues who share our vision and values ensures the Company is on target to deliver our objectives successfully.

Our management training programme supports recruitment and development by ensuring our managers are aware of how to avoid any form of bias and that they have the appropriate interview skills to select the best candidate for the position. These skills help encourage and support diversity as well as ensuring we attract and retain the best talent.

We regularly review our policies relating to flexible working practices, and the changes imposed by the COVID-19 pandemic have shown how, by adapting our practices to focus on outcomes, we can offer support for parents and carers helping to promote an inclusive and supportive culture.

Modern slavery act

We strongly oppose all forms of slavery and human trafficking and would never knowingly conduct business with suppliers or contractors engaged in such practices. We have several key contract partners who work with us to help us deliver services for our customers in our supply chain including, amongst others, Bristol Wessex Billing Services Limited ("BWBSL") (trading as Pelican Business Services ("Pelican")), Network Plus, Lewis Civil Engineering and Wipro. They and our other suppliers know that we require our contractors and suppliers to comply with the Modern Slavery Act 2015 (the "MSA Act"), and importantly that we will not continue to purchase goods or services from any supplier that does not fully support this legislation and our own contractual terms. We continue to review our operations and supply chain regularly to evaluate human trafficking and slavery risks, and we include compliance with the MSA Act as a requirement before entering new agreements with contractors or suppliers.

Risk and uncertainty

Risk Management Framework

Our Corporate Risk Register combines a comprehensive bottom-up process with dedicated and regular strategic review from the Executive and Board. Our embedded risk management processes collate risks across different themes within the business, driven by expertise and knowledge across those business areas. The Executive Management Team undertakes a strategic risk review across all areas of the business to ensure risk identification, assessment and mitigation is consistently and comprehensively undertaken.

The framework includes the following hierarchy of responsibilities:

- **Board of Directors and Audit and Risk Assurance Committee** ("ARAC") have overall governance responsibility for overseeing management's implementation of the risk management policy. This includes setting and reviewing the corporate risk appetite.
- **The Executive Management Team and Senior management** are responsible for the implementation of the Risk Management Framework to all applicable activities and reporting to the ARAC.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area. Identified asset owners are accountable for monitoring, reporting and rectifying any unacceptable risks associated with the assets they are responsible for.

- **The Chair of the ARAC**, supported by the CFO, is responsible for the internal assurance plan and for ensuring the ongoing review and reporting on the effectiveness of the Company's controls to minimise risk through a programme of internal assurance.

Risk identification

Risks are considered both before and after considering the impact of mitigating controls, and are ultimately ranked on a residual risk basis, considering their potential impact, likelihood, the effectiveness of existing controls, and the Company's risk appetite.

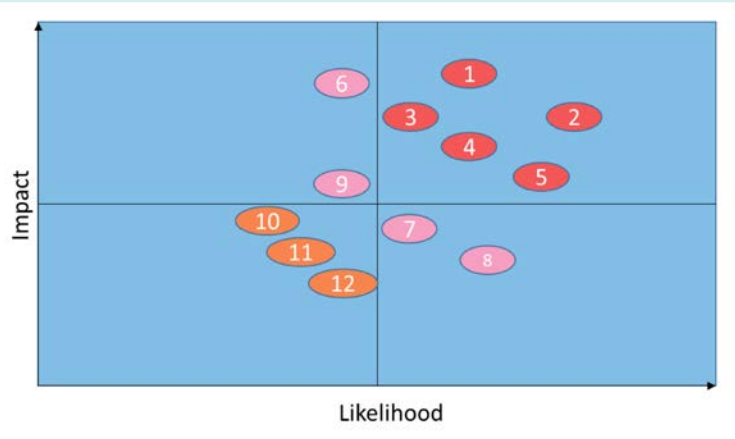
The risk appetite has been set by the Board who recognise that Bristol Water operates within a complex regulatory environment and it is not viable to fully mitigate all the risks it faces. In general, there is a lower risk appetite to activities that are key to delivering core operational services.

The following risks have been identified as the top 12 strategic risks following recent assessment.



Top 12 Strategic Risks

1. Transformation Delivery
2. Combined effects of the COVID-19 Pandemic
3. CRT, restricted or unaffordable access
4. Chemical supply chain
5. Implementation of new billing system
6. Health & Safety
7. Unfavourable Price Control
8. Significant operational failure, including pollution events
9. Ability to raise new debt
10. Material regulatory reporting failure, e.g. tariffs
11. Industrial Relations
12. Cyber Security



Each of the top 12 strategic risks are summarised below, with greater detail over the following pages.

1. Transformation delivery is the biggest risk the Company faces. Failure to convert the initiatives to improve operating efficiency, meet targets and produce the desired culture will threaten the organisation's ability to provide customers with their expected level of service, form credible regulatory plans and provide external rating agencies with sufficient assurance as to the Company's financial resilience.
2. The combined effects of the COVID-19 Pandemic, which internally make operations more challenging, and externally create an economic environment that increases our risks of bad debt as well as threats from fraud and cyber security, remains one of our top risks
3. CRT, restricted or unaffordable access, reflect that strategically, and over the long term, the Canal & River Trust has the potential to restrict our water supply through unaffordable increases in costs, poor maintenance of the Gloucester and Sharpness Canal, or lack of cooperation.
4. Threats to our chemical supply chains has become a top risk over the last year, with real examples of failures in the supply chain starting to emerge as well as upward price pressures.
5. Implementation of the new billing system. Our billing joint venture BWBSL is looking to implement a new billing system, intended to improve our billing service, cash collection processes and customer service. The ability of the programme to deliver these benefits in a reasonable time frame is key to our reputational, operational and financial outcomes.
6. Health and Safety remains a key risk and area of absolute priority for the Company.
7. An unacceptable result at the 2024 Price Review ("PR24") has the potential to destabilise the Company.
8. Significant operational failures, such as mains bursts, pollution events or treatment works failures remains an enduring top risk
9. Our ability to raise new debt over the medium term is critical to the resilience of the business, to be considered in light of debt maturities, covenants and associated restructuring of debt terms.
10. Material regulatory reporting failure also remains a top risk due to ongoing complexity.
11. Industrial relations has emerged as a top risk following recent experience with the GMB, which has demonstrated a higher likelihood of ongoing poor industrial relations.
12. Finally, cyber security remains a significant risk. Controls are good but the underlying impact and likelihood remain high for this ever-increasing challenge to our technological dependence.

1. Transformation Delivery • Executive Responsibility: Chief Financial Officer (“CFO”)

Risk description and potential impact	Mitigating actions
<p>As a result of our challenging Business Plan, transformation is required to ensure that the business delivers the outcomes of our Business Plan and does so at the least possible cost to the customer.</p> <p>The transformation programme is underway in order to reduce our costs, whilst meeting our performance commitments. Significant progress has been made but our programme remains critical to embedding improved outcomes for the lower costs. A failure to deliver our programme could result in overspend compared with allowed expenditure and a deterioration in financial metrics, which could impact the Company’s financial health and cost of debt.</p> <p>In addition, failure to deliver operational performance in line with our commitments will result in financial penalties to the Company under the regulatory framework.</p>	<p>A significant programme of work is being implemented to deliver the transformation objectives. Re-forecasting and rephasing of work was necessary based on challenges arising from COVID-19, but we successfully delivered our year 1 programme and have ambitious plans for moving forward.</p> <p>Short term mitigation for failure to implement transformation is to maintain cash by restricting capex and dividends.</p>
<p>Movement in Risk Exposure: The risk exposure has decreased slightly due to the CMA's redetermination and progress made, with the restructuring of the business, significant development of cost reduction initiatives and productivity improvements in 2020/21. Further work is planned particularly with the technology replacements or upgrades required over the next 3-4 years, and operational and process improvements that will deliver step changes in operational performance.</p>	

“The transformation programme is underway in order to reduce our costs, whilst meeting our performance commitments. Significant progress has been made but our programme remains critical to embedding improved outcomes for the lower costs.”



2. Coronavirus pandemic (COVID-19) • Executive Responsibility: CEO

Risk description and potential impact	Mitigating actions
<p>The year has seen significant challenges being overcome through the incredible efforts of our staff. However, the risks surrounding the pandemic remain very real, albeit, as we have learned to live in a world with COVID-19, the risks have changed. We consider the most significant impact to be the financial position of our customers and the consequential likelihood of worsening cash collection rates. This will lead to further pressure on our financial position that may be difficult to mitigate.</p> <p>We also anticipate there will be ongoing challenges for our staff with the potential for illness and impacts on mental health and wellbeing.</p>	<p>Business continuity plans are in place and have been activated in the year to deal with a reduction of staff due to the COVID-19 outbreak, with critical activities and staff identified. The COVID-19 pandemic is being dealt with in conjunction with the Local Resilience Forum and Water UK.</p> <p>Actions to address the financial impact include careful management of cash flows in the short term to mitigate pressure on liquidity and financial metrics, focus on debt collection, communication with customers around payment plans, and early identification of payment issues to best manage the position. We provide support to vulnerable customers including those with low incomes and we regularly review our collection rates to ensure that we understand our customers' ability to pay.</p> <p>Business continuity plans are in place which focus on dealing with a reduction of staff due to pandemic illness, with critical activities and staff identified. Links are established with agencies (including civil contingency community) that provide information and advice to assist in day-to-day and long-term planning. Continuity plans provide some mitigation for loss of power (e.g. emergency power generation, re-zoning, emergency communications systems), and buildings are maintained to appropriate standard of fire protection and security. Disaster recovery procedures are in place with alternative sites identified for critical staff, and processes exist for systems and backup data.</p>
<p>Movement in Risk Exposure: There is a decrease in exposure due to experience of managing the effects of the pandemic although this remains a significant on-going consideration for the Company, effective controls and mitigations are in place. Business resilience plans have been tested during the year and found to be appropriate.</p>	

3. CRT, restricted or unaffordable access • Executive Responsibility: CEO

Risk description and potential impact	Mitigating actions
<p>Despite the conclusion of the arbitration process, there remains a risk that the CRT will seek further increases in the price paid for the supply of raw water from the Canal at the next price review or for other matters where CRT engagement is needed by Bristol Water in order to make up any shortfall in CRT's income</p> <p>Although the possibility of further price increases being demanded is not immediate there is a high magnitude of the adverse consequence and thus a need to renegotiate the relationship with CRT to mitigate the risks identified before the risk of occurrence becomes imminent.</p>	<p>Executive Management Team – oversees the relationship with CRT. Monthly relationship meetings are held with CRT to discuss and agree operational and other issues and there is coordination of the relationship with CRT by the Company from across the business. Initial key actions have been identified and are being implemented. Longer term planning for security of supply will be incorporated into the Water Resources Management Plan. The Company will engage with the Department for Environment, Food & Rural Affairs ("DEFRA") and other stakeholders as appropriate.</p>

Movement in Risk Exposure: Continued risk exposure as the outcome has the potential to significantly increase the costs of the organisation over the long-term timeframe of the underlying contractual arrangements.

4. Chemical supply chain • Executive Responsibility: CFO

Risk description and potential impact	Mitigating actions
<p>The supply chain for bulk water treatment chemicals relies on a small number of suppliers accessing global supply chains to manufacture chemicals. A failure of the supply chain for any of the chemicals would have a serious impact on the business as alternative products are not readily available.</p> <p>Recent failures (technically and economically) of several chemical production plants now means that several chemicals are now only produced at a single facility or need to be imported. Failure of the supply chain would interrupt delivery to our sites and threaten our ability to treat our water.</p> <p>In a COVID-19 and post-Brexit environment, we have seen pressure on supply chains increase.</p> <p>Approximately 75% of the available capacity of our treatment works are based upon chemical treatment of the raw water to provide water suitable for drinking.</p>	<p>Increased stocks of chemical held on site as part of the planning undertaken for leaving the EU. Chemical stocks are closely monitored with early warning triggers.</p> <p>A Water UK industry group meets to enhance bulk chemical resilience across the water industry.</p>

Movement in Risk Exposure: The risk exposure has increased due to recent failure of several chemical production plants, specific challenges with sulphuric acid and potential interruptions to supply due to COVID-19.

5. Implementation of new billing system • Executive Responsibility: CFO

Risk description and potential impact	Mitigating actions
<p>BWBSL, our billing joint venture with Wessex Water, is replacing its billing system. With any new billing system there is an inherent risk that the service provided to customers could be affected, that availability to deliver accurate and timely bills is impaired or that our debt management processes are impacted.</p> <p>This results in significant reputational, operational and financial risks</p>	<p>Significant resource and investment is being made to drive a successful outcome of the programme.</p> <p>User acceptance testing is a core part of the programme and will only go ahead after significant testing has been successfully performed</p> <p>External assurance is also being gained over the plan, team and cost of the programme</p>

Movement in Risk Exposure: Increasing risk exposure due to the potential for the project not delivering the expected benefits within a reasonable timeframe.

6. Health and Safety Failure • Executive Responsibility: CEO

Risk description and potential impact	Mitigating actions
<p>The nature of Bristol Water's business means that its employees, contractors and the public are potentially exposed to a large range of health and safety risks. These risks are increased due to large number of contractors being engaged to carry out work on behalf of the organisation.</p> <p>A severe health and safety accident is most likely to relate to a high-risk activity such as excavation, working with electricity, with gases or chemicals, or in confined spaces or at height. In addition, failure to maintain the operational estate at a level that complies with relevant regulations may result in an incident; errors may be made by operational teams which might impact on asset serviceability and lead to unsafe working (e.g. over-dosing of chemicals); or staff may work in some geographical areas where criminal activity is higher than average and staff could be attacked or abused.</p> <p>If the risk of a health and safety exposure was left unmitigated, this could lead to injury or death. In the event of a serious accident, Bristol Water could be prosecuted and fined, which would have a significant impact on its reputation, as well as an impact on its employees and customers.</p>	<p>Systems and policies are in place to maintain an awareness of requirements detailed in Health and Safety Guideline 65. A series of initiatives and campaigns are in place to drive improvement, these include Director safety inspections, regular toolbox talks for operational staff to raise health & safety awareness, company-wide launch of the 'Take 5 for Safety' Initiative, launch of new site inspection system incorporating corrective action plans, improved hazard reporting systems and timely response and correction of reported hazards, and an estates department maintenance programme.</p> <p>There is an improved lone worker system in place and staff are instructed not to put themselves in danger. Throughout Bristol Water there is a health and safety induction programme, on-going training (competent operator framework), monitoring, risk identification and assessment, and regular health & safety committee meetings.</p>

Movement in Risk Exposure: No movement in risk exposure.

7. Unfavourable Price Control • Executive Responsibility: Director of Strategy and Regulation

Risk description and potential impact	Mitigating actions
<p>Ofwat's final determination for AMP8 does not produce an acceptable outcome, making a fourth consecutive CMA appeal necessary.</p> <p>Ofwat may choose not to take into account the small company precedents relied upon by the CMA in making its redetermination and refuse to consider any small company premiums for the cost of debt and debt issuance for PR24.</p> <p>Econometric modelling performed by Ofwat may disallow significant levels of planned expenditure required to achieve performance targets.</p> <p>An unsatisfactory price control includes where there are obligations and expectations on water companies that are not reflected in the price control, either through revenue and cost assumptions or through risk mitigation processes. This can be from the price review determination, changing government requirements or from market changes.</p>	<p>Relationships with Ofwat remain positive despite the reference to the CMA.</p> <p>Early planning for PR24 being carried out and market engagement through the publication of 'Regulating for consensus and trust', a contribution to Ofwat's PR24 Future Ideas Lab.</p> <p>Bristol Water has proposed a new framework for how price reviews could work, to make sure local community views are taken into account for the long term. This will be used as a framework for our responses to Ofwat's PR24 consultation process, which is due to start in earnest at the end of May</p>

Movement in Risk Exposure: The risk has remained the same as Ofwat are at an early stage of considering their PR24 framework.

8. Significant Operational Failure • Executive Responsibility: Chief Operating Officer and Director of Strategy and Regulation

Risk description and potential impact	Mitigating actions
<p>As an operational business, reliant on our assets and processes to provide a safe, reliable water supply to our customers, there is a risk that a failure in any individual asset, process or activity could result in a material impact on our business. A prolonged failure in any area could result in missing performance commitments such as leakage targets, supply interruptions or similar obligations that could result in material financial penalties. Operational risks are broad and numerous, but include asset failure, fire, flood, or failure in treatment processes resulting in water quality failures.</p>	<p>We have established robust processes to manage our assets across the business, and to understand at a detailed level the operational risks across the business. Our asset management function assesses, prioritises, and mitigates these risks, based on information and collaboration with operational colleagues.</p> <p>Our key performance metrics, from water resources, through treatment works performance and costs, to network performance including leakage, supply interruptions and customer related indicators, are closely monitored by executive management and the Board, in order to ensure early sight of any potential areas of risk and action is then taken.</p> <p>We also have insurance in place for key risks such as fire, flood and similar to mitigate large scale asset related risks.</p>

Movement in Risk Exposure: No movement in risk exposure.

9. Ability to raise new debt • Executive Responsibility: CFO

Risk description and potential impact	Mitigating actions
<p>In order to finance our business, we rely on a combination of debt and equity funding, to allow us to invest in the business for the future, and to operate at an efficient level of return. In order to raise debt finance in particular, we rely on having an investment grade credit rating to raise debt at an efficient cost. As such, a key measure of our viability is our ability to maintain an investment grade credit rating.</p> <p>Our credit rating was downgraded from Baa1 to Baa2 consequent to Ofwat's Final Determination, and only removed from negative watch following the CMA appeal. If we fail to maintain this credit rating, restrictions could arise on our existing loan covenants, difficulties could be experienced in raising new debt at an efficient cost, and potentially a breach of our operating licence may be triggered.</p> <p>Whilst our need for new debt is low over the current regulatory period, our need to replace existing debt as it matures, balancing costs and tenor with restructure resulting from debt terms, covenants etc, remains a key risk for the business.</p>	<p>We monitor our financial position carefully and in particular, we focus on covenants under our existing finance documents and our financial metrics to ensure we retain an investment grade credit rating. We take actions to manage our financial position to support our rating and in the light of our debt management and risk appetite strategy, such as retention of dividends.</p>

Movement in Risk Exposure: Decrease in risk exposure, whilst our Moody's credit rating has stabilised at Baa2 following the CMA re-determination, and changed to positive outlook following the acquisition by Pennon, there remain medium term challenges to maintaining our credit rating, debt portfolio and for replacing/raising debt due to Artesian structure, covenants and terms. This will need to be carefully managed, under a clear debt strategy.

10. Material regulatory reporting failure • Executive Responsibility: Director of Strategy and Regulation

Risk description and potential impact	Mitigating actions
<p>We are required to submit information to the regulator, Ofwat, in order to allow them to carry out their duties. For example, the Company Annual Performance Report is a report which details the financial and non-financial performance data for the year. This is a complex submission of several data tables, with multiple data owners and reporting processes. If we fail to provide accurate and appropriate reporting, deliberately or otherwise, inaccurate data will be reported and could cause regulatory action.</p> <p>In addition, tariffs are set for customers and wholesale charges based on data and information from the business which, if interpreted inaccurately, could result in adverse reputational and regulatory consequences.</p>	<p>Maintenance of high standards, openness, integrity, regular interface, and employment of skilled staff are all important steps taken to maximise data and reporting integrity. Personnel are all aware of this need for integrity.</p> <p>Established and robust internal and external review and assurance processes appropriate to significance of data.</p>

Movement in Risk Exposure: The long-term risk exposure is broadly stable. Our processes have allowed us to provide accurate information to regulators including the CMA and Ofwat. There is marginal upward pressure in charges reporting requirements due to changes in the developer market and revenues impacted by COVID-19, which will be considered through stakeholder engagement for 2022/23 charges.

11. Industrial Relations • Executive Responsibility: CEO

Risk description and potential impact	Mitigating actions
Relationship with the GMB and members has deteriorated over the past 6 months as a result of a pay freeze implemented for the 2020/21 financial year. Despite offers to increase pay by an above inflation amount, and offering a £500 payment to all staff, industrial action was pursued by the GMB. Whilst agreement was reached in the year and mitigation is in place, exposure in this area is a risk should another dispute arise.	Rebuild the relationship with GMB, agree principles for future negotiations to limit risk, identify options to increase resilience in key operational areas to mitigate the impact of any strike action.
Movement in Risk Exposure: Increase in risk exposure following recent experience with the GMB, which has revealed the extent of the impact and likelihood of poor industrial relations.	

12. Cyber Attack • Executive Responsibility: CFO

Risk description and potential impact	Mitigating actions
The risk of customer or employee data breaches, with resulting loss of significant amounts of personal data. The loss of head office data and corporate network could be the result of a cyber-attack. There is also the threat of data corruption for critical datasets, loss of systems and prolonged recovery times. Our network and control systems could be infiltrated, directly affecting water supply to customers.	Projects have been delivered in order to mitigate the risks associated with General Data Protection Regulations ("GDPR") compliance and Cyber Essentials+ accreditation and maturity assessment work with DWI\DEFRA, which reduces likelihood of breach. Ongoing actions focus on technical, process related and cultural improvements to ensure we remain focussed on minimising the risk of attack.
Movement in risk exposure: Continued risk exposure due to underlying impact and likelihood remaining unchanged.	

Long Term Viability Statement

Background

The Directors of Bristol Water are responsible for ensuring the long-term viability of the Company. The Directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks to supply, delivery and financial resilience.

The long-term prospects of the business are monitored and managed through regular long-term modelling and the monitoring of key measures such as our key ratios and level of liquidity. The Directors ensure that this is appropriately assessed through a number of mechanisms, including:

- Monitoring the level of liquidity and access to undrawn facilities
- Long term financial planning process including the price review
- Annual budgeting and regular forecasting
- Regular risk reviews, as presented and discussed by the ARAC and Board. The key risks have been set out on pages 34– 42 of this report.
- Sensitivity analysis and stress tests of financial performance.
- Credit rating assessments and metrics, and the associated credit quality of the Company for financing purposes.

Market context

Water companies in England and Wales, as monopoly suppliers of drinking water, are currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to ensure that water companies can finance the proper carrying out of their functions by providing for reasonable return for investors and lenders.

Ofwat meets this obligation by setting price controls for five-year price control periods, including mechanisms to ensure that over or under-recovery of these revenues is balanced over the longer term.

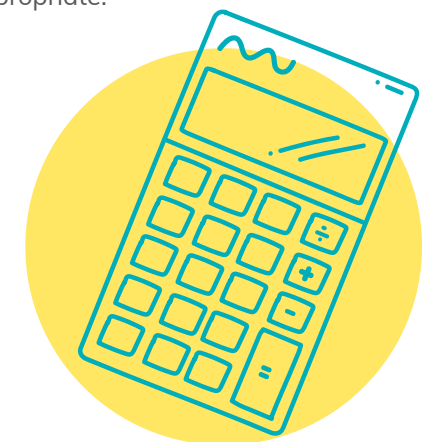
In March 2021, the CMA completed its re-determination of our price controls for the 2020-2025 regulatory period. We requested that the CMA review Ofwat's Final Determination for this period as a result of a number of material issues. At the heart of these were issues around the

financeability of the Company, including the cost of capital allowed for Bristol Water, the scale of the efficiency challenge posed by Ofwat, and the balance of risk in our overall plan. These issues were substantively addressed by the CMA and therefore the uncertainty and risk surrounding the longer term viability have been reduced (as such the risk in the risk section has been changed to being less specific and immediate. We outline the impact of the CMA redetermination further in the Corporate and Financial resilience section of the Strategic report).

Period of assessment

We have conducted our assessment of long-term viability over a period of 10 years. In determining this period, we have taken into account the long-term nature of the business; the 25-year rolling licence period, the long-term capital investment programme and the 5-year regulatory periods, whilst accepting that there is lower certainty over future regulatory reviews.

We remain of the view that the regulatory mechanisms - including the ability to request a review of any determination that does not in our view support our long term viability - remain strong and support our 10-year rolling assessment period. However, by taking a longer timeframe, there is inherent uncertainty in the financial projections and will result in greater uncertainty around the potential outcomes. This notwithstanding, bearing in mind the long-term nature of the Company's business, the criticality of water supply to our customers and communities, and the established nature of our planning process, we believe this period remains appropriate.



Review and assurance

The assurance process comprises three main stages:

1. The Board reviews and approves our Business Plans and financial models on which this viability statement is based.
2. The Board reviews and challenges the risk review, with associated mitigating strategies, as well as approving the period over which the assessment of viability is made. The ARAC supports the Board in this review.
3. The financial model used for quantified stress testing was reviewed by an independent third party, and our external auditors, PwC, also considered this long term viability statement as part of their work.

Assessment measures

We rely on a combination of long-term debt and equity funding, to invest in the business for the future, and operate at an efficient level of return. In order to raise debt finance in particular, we rely on having an investment grade credit rating to raise debt at an efficient cost. As such, a key measure of our viability is our ability to maintain an investment grade credit rating, i.e. a Moodys rating of Baa3 or above.

Our public credit rating is undertaken by Moody’s, who assess our credit worthiness using a grid of relevant considerations. This grid includes two primary ratios: Adjusted Interest Cover Ratio and Gearing. For comparative purposes, and to ensure an appropriately rounded position, we also model metrics under the Standard & Poor’s methodology, which focus on the ratio of funds from operations to net debt (FFO to Net Debt). To ensure compliance with our existing securitisation framework we also monitor covenants under these requirements, which most significantly reflect an alternative calculation of interest cover and regulated asset ratio (the ratio of net debt to regulatory capital value).



Ofwat’s price determinations also ensure that companies are benchmarked against each other from an efficient cost point of view. This means that it is vitally important that our processes and resources are constantly reviewed and refreshed to ensure our costs are efficient. We therefore also consider the impact on our financeability of not achieving efficient costs in line with our determination.

In assessing our long term viability, we also consider other viability measures such as profitability, access to funding facilities, cash flows, need for new funding and covenant compliance on existing arrangements.

Risks

As described in the Risk Review, we have identified those key risks and standard economic shocks that could impact the long term viability of our business. These are: the impact of not achieving the transformation benefits we have targeted in order to achieve greater cost efficiencies; the impact of the COVID-19 pandemic; cost pressures especially relating to our water abstraction; the impact of an interruption to our chemical supply chain; and an adverse outcome in PR24. These risks are among those reflected in our scenario modelling.

In addition some more general scenarios have been considered such as significant Outcome Delivery Incentive (“ODI”) penalties, and changes generally to the wider economic environment, for example changes to inflation or interest rates.

Stress testing

We have performed quantitative financial scenario testing on the impact on our cash flows and credit ratings of the risks described above and in the Risk Review. The scenarios tested are described below, together with potential mitigating actions.

The scenarios reflect a wide range of potential risks to the business and vary in the extent to which they are considered reasonably probable of arising. However, to ensure appropriate downside scenarios are considered, the modelling has considered each risk on an individual basis, as well as the combined scenario described above.

Risk identified		Scenario modelled	Mitigating actions
1.	Totex underperformance	We assume a level of ‘totex’ (combined capital and operating expenditure) spend in line with our plans. We have made significant progress in delivering the cost efficiencies and performance improvements assumed in our plans.	Increased pressure on gearing can be mitigated by: <ul style="list-style-type: none">• Reducing discretionary expenditure in the short term.• Equity retention by restricting dividends. Note that this is an automatic consequence from our 2020-25 dividend policy• Implementing medium term cost reduction programme to deliver sustainable cost savings.
	Risk 1 - Transformation programmes to improve our performance outcomes and cost efficiency may be compromised or delayed.	We target our expenditure at what is believed efficient in the long-term to meet our performance commitments, which also allows for short-term flexibility in response to cost pressures.	
	Risk 3 – Our access to raw water may be subject to significant cost pressures or restrictions	Upward cost pressures, resulting from the crystallisation of key risks, could result in the business spending in excess of this value, and as a consequence result in a deterioration in financial metrics, which could impact the Company’s solvency, credit rating and cost of debt.	
	Risk 4 - Increased cost pressures as a result of a compromised chemical supply chain		
	Risk 8 - Increased cost as a result of a significant operational failure or weather event		
	Risk 10 – Increased cost as a result of a material reporting failure (fine)		
2.	Risk 12 - Increased cost as a result of a cyber security incident		
2.	Risk 2 - The impact of COVID-19 leads to an extended downturn in the wider economy	Implications for the wider economy are significant, resulting in prolonged impact on both the Company and its customers lower non-household consumption and higher levels of bad debt.	Careful management of cash flows in short term to mitigate pressure on liquidity and financial metrics.
			This mitigation is likely to be effective because the main impact of revenue reduction is a cash flow timing difference, given the regulatory model.

Risk identified	Scenario modelled	Mitigating actions
3. Risk 7 - The revenues resulting from the PR24 determination are lower than our requirements.	<p>The next price review period will set revenues for 2025 to 2030. Despite the precedent we have set for receiving the 'Small Company Premium' for debt costs, and the improved outcome from the CMA, Ofwat may not agree with our view that we should receive this increase to cost of capital, and therefore our overall return would be compromised.</p> <p>Also Ofwat's view of efficiency may be significantly different to our operating cost level.</p>	<p>Equity retention by restricting dividends.</p> <p>Identify and implement short-term cost savings and efficiencies, in excess of what we currently believe to be long-term sustainable levels and to manage the financial implications of performance penalties on cash flow and credit metrics.</p> <p>Reduce or defer capital programme to manage cash flow and credit metrics</p>
4. Risk 9 - Access to lending;	We consider the impact of changes in cost of debt, our ability to raise funding, in line with our investment programme and the maturity of our debt portfolio.	<p>Managing the debt portfolio to ensure a range of maturities, and managing level of gearing</p> <p>Implement medium term cost reduction programme to reduce pressure on longer term finance requirements.</p>
5. Failure to deliver operational performance in line with performance commitments	<p>Failure to deliver what we have promised to customers results in financial penalties to the Company under the regulatory framework.</p> <p>In addition we may need to invest more into the business in order to achieve the ODIs which will put further pressure on totex in the short term.</p> <p>We have considered the impact of such operational underperformance, which we assume for stress testing at 1% of regulated equity each year from 2022-23 (this reflects the maximum level which would be considered, in any one year, as part of the annual determination of outcome delivery incentives. This enables the business to manage financeability and minimise bill volatility for customers).</p>	<p>Re-prioritising investment (especially to mitigate ODI failures) and targeting cost efficiencies in order to improve performance and maintain totex spend target.</p> <p>Equity retention by restricting dividends. Note that this is an automatic consequence from our 2020-25 dividend policy.</p>
6. Changes in wider economic environment	We consider changes in the wider economic environment, such as inflation (positive or negative) changes, changes in interest rates and macroeconomic factors such as Brexit on our overall financial position.	<p>Our financial structure is designed to minimise the impact of such changes, with the regulatory framework also reducing risk in a number of areas.</p> <p>Implement medium term cost reduction programme to reduce pressure on longer term finance requirements.</p> <p>Equity retention by restricting dividends.</p>

Risk identified	Scenario modelled	Mitigating actions
7. Combined scenario of 1, 4 and 5	A combination of scenarios has been modelled, to consider an overall downside scenario which reflects 10% overspend on costs as a result of COVID-19, coupled with performance penalties, and restrictions in our ability to raise debt.	<p>Re-prioritising investment and targeting cost efficiencies in order to improve performance.</p> <p>Managing the debt portfolio to ensure a range of maturities, and managing level of gearing.</p> <p>Management action to minimise costs, manage timing of cash flows and implement medium term sustainable cost reductions.</p> <p>Equity retention by restricting dividends.</p>
8. Combined scenario of 1, 3 and 4 and 5	A combination of scenarios has been modelled, to consider an overall downside scenario which reflects 10% overspend on costs as a result of COVID-19, coupled with performance penalties, restrictions in our ability to raise debt and reduction in the cost of capital from PR24.	<p>This combined scenario would put significant pressure on our overall solvency, particularly if it continued for a sustained period (for example if the cost of capital reduces in PR24). More material measures would need to be taken in order to mitigate the risks arising and ensure the long term viability of the Company.</p> <p>These would include suspension of dividends for the foreseeable future, cost reduction and restructuring, cash flow management.</p>

Stress testing evaluation

The outcome of the individual quantitative scenario testing suggests that financial analysis should remain consistent with investment grade credit rating at lower levels, but only if supported by dividend restrictions and cost control mitigations. However, in some circumstances, more extensive action would be required for a combination of scenarios but we consider the probability of these scenarios crystallising being unlikely.

We have also considered the impact of key operational failures in assessing long term viability. We have insurance in place for many material, adverse events. Although these would result in short term liquidity issues if such events were to arise requiring insurance to be drawn upon, these are important protections in the medium term.

Viability statement

The Directors have assessed the viability of the Company over a 10-year period to 31 March 2031. In so doing, they have taken into account the Company's current financial position, the protections that exist under the regulatory regime including the ongoing protections provided by the CMA

re-determination process, and the key financial projections over this period.

Scenarios have been assessed based on quantifying the financial impact of risks identified in the risk review, as well as wider macroeconomic implications for the business, and a combined downside scenario. Third party advice has been sought in order to ensure that the likely implications of the various scenarios on credit metrics are assessed appropriately, along with quantifying the impact of mitigating actions.

Based on the resultant 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 10-year period to March 2031.

S172 Statement

The Company's Section 172 statement can be found on pages 104-107 in the Directors' report.

Mel Karam
Chief Executive Officer
9 July 2021



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Chairman's introduction

Keith Ludeman

Dear Shareholders

I am pleased to introduce our Corporate Governance Report for 2021 on behalf of the Board of Directors of Bristol Water. The pages which follow provide details on the activities and governance processes of the Board and its Committees in the financial year 2020/21.

2020/21 was a busy and challenging year for the Company. First and foremost, the Company was faced with the challenge of continuing to deliver safe and reliable water to its customers during the COVID-19 pandemic whilst at the same time safeguarding the health and wellbeing of its workforce during this difficult period. In addition, the Company made the difficult decision to request referral of its PR19 Ofwat Final Determination to the CMA for Redetermination (the "CMA PR19 Redetermination"), our third consecutive referral. During the period of that referral (which concluded in March 2021 with a very positive outcome for the Company) the Company also implemented a wide-ranging Transformation Programme to optimise efficiency and enhance customer service.

Faced with these challenges, the Board spent the overwhelming majority of its time on these three issues providing support for and oversight of the Company's response to the COVID-19 pandemic; oversight, support, and challenge to the executive Management Team on delivery of the Company's Transformation Programme; and oversight, support, and challenge to the Company's Statement of Case and the conduct of the CMA PR19 Redetermination.

As the seriousness of the COVID-19 pandemic became clear the Board instituted a series of fortnightly virtual meetings to receive regular operational and strategic updates on the Company's response to the pandemic and its performance against key operational and financial metrics during that period (including the impact on bad debt provision).

The Board also had significant oversight and provided challenge to the Company's

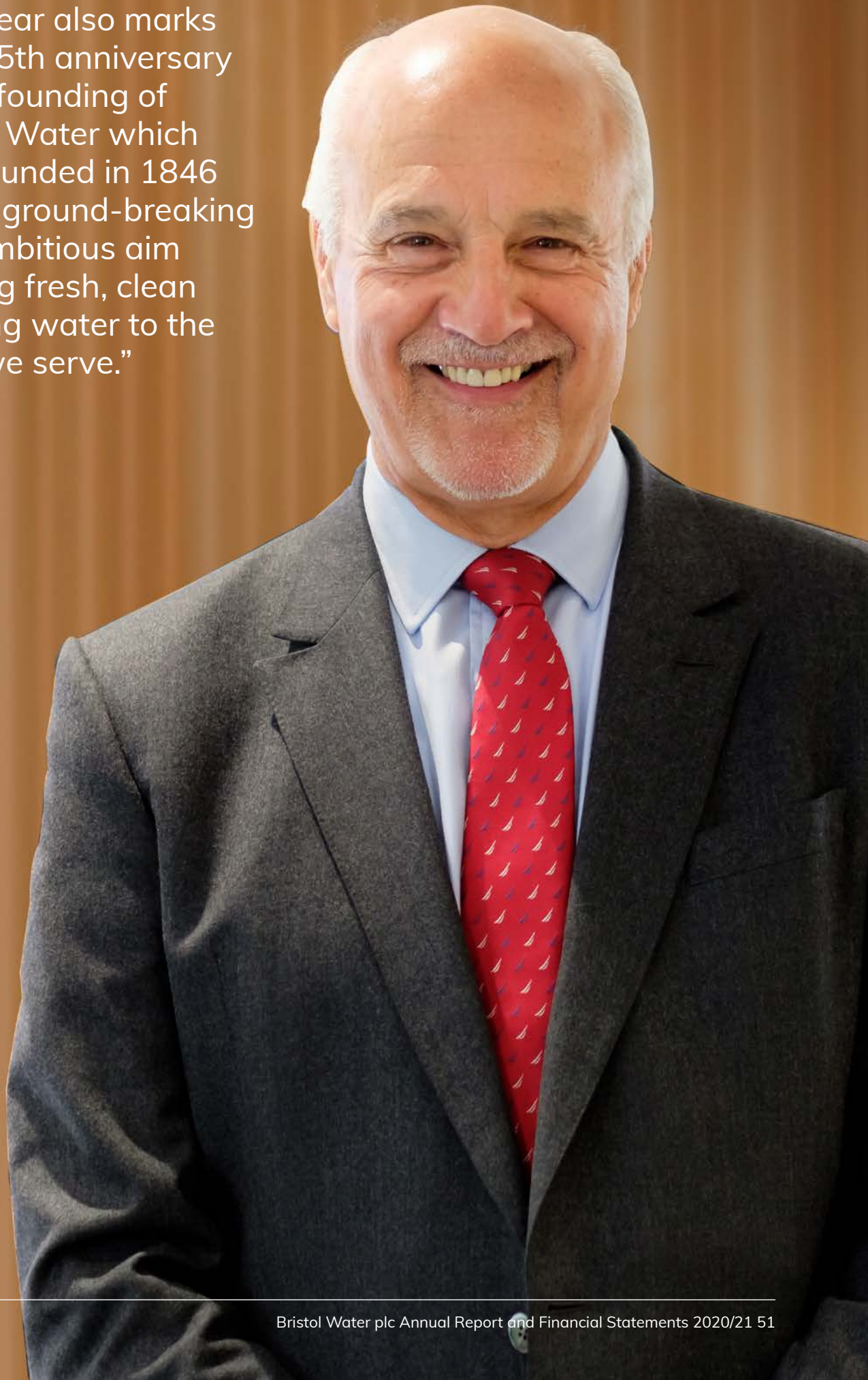
transformation programme. Implementation of the transformation programme was monitored through regular transformation updates and progress reports being provided to the Board as the year progressed.

In relation to the Company's CMA PR19 Redetermination, the Board was heavily engaged in scrutinising and agreeing the Company's initial Statement of Case to the CMA and in providing information to the CMA and responses to Ofwat's responses to its Statement of Case. The mechanism for that support was through a steering group comprised of Board members and other key individuals. The steering group reported directly into me as Chair of the Board through the CEO. The steering group oversaw the Company's Statement of Case, the conduct of the referral, and set the strategic direction and parameters. A wider CMA PR19 Redetermination working group including external advisers and experts reported into and supported the work of the steering group.

On 3 June 2021, Pennon Group plc ("Pennon Group") announced that it had acquired Bristol Water (the "Pennon Acquisition"), which meant a change in the shareholder representatives on the Bristol Water Board. The Pennon acquisition has been referred to the CMA for review (the "CMA Pennon Review") as required by law. During the period of the CMA Pennon Review, which is likely to take several months, there will be no change to Bristol Water strategy or plans and Bristol Water will continue to exist and be run as an independent company and business entirely separate from Pennon Group and all other subsidiaries and affiliates of Pennon Group in existence prior to completion of the Pennon Acquisition (the "Original Pennon Businesses").

This year also marks the 175th anniversary of the founding of Bristol Water which was founded in 1846 with a ground-breaking and ambitious aim to bring fresh, clean drinking water to the area we serve. This remains the primary aim of Bristol Water and the Board of Bristol Water continues to carry forward its vision as a water company doing

"This year also marks the 175th anniversary of the founding of Bristol Water which was founded in 1846 with a ground-breaking and ambitious aim to bring fresh, clean drinking water to the area we serve."



all it can for the communities we serve in 2021. Pennon has made clear, in announcing the Pennon Acquisition, that the Bristol Water brand, values, history, heritage, performance and culture are key to their future plans for Bristol Water and Pennon Group's wider strategy and I, my fellow Board members and all at Bristol Water welcome this.

My role, along with the Board, is to ensure that Bristol Water continues to operate to the highest standards with a robust governance framework in order to deliver its objectives and meet stakeholder obligations against the backdrop of a successful CMA outcome, the transformation of the business to meet customer and wider stakeholder expectations and the Pennon Acquisition. During 2021, pending the outcome of the CMA Pennon Review, the Board will continue to oversee the implementation of the Company's AMP7 Business Plan and strategy, which it monitors by both challenging and supporting the Executive Directors in its implementation.

In 2020 a Board Effectiveness Review was carried out by the Company Secretary, building on previous Board Effectiveness Reviews carried out in 2018 and 2019. The evaluation of the 2020 Board Effectiveness Review by the Company Secretary concluded that the Board and Committees continues to be highly effective and that the Directors continue to demonstrate commitment and dedication of sufficient time to their role. The review included some recommendations to improve Board effectiveness further, principally in relation to the time spent reviewing and setting the Company's strategic direction and these recommendations have been acted upon with a Board strategy day held in March 2021.

There have also been some changes to the composition of the Board since 31 March 2021 and the conclusion of the 2020 Board Effectiveness Review.

Firstly, on 24 June 2021, Paul Francis, who was appointed to the Board as an INED of the Company in 2018, stepped down from the Board and his role as Chair of the ARAC was assumed by Jim McAuliffe, who joined as an INED of the Company, also in 2018. Pending the conclusion of the CMA Pennon Review, it is not intended to appoint a new INED to replace Paul Francis.

Secondly, on 3 June 2021, on completion of the Pennon Acquisition, the shareholder representative Directors of our former shareholders, the iCON Funds (namely Paul Malan and Indradoot Dhar) and Itochu Corporation (Hajime Ichishi) resigned from

the Board and three new Pennon Group designated Non-Executive Directors ("NED") (Paul Boote, Neil Cooper and Iain Evans) were appointed in their place.

It is the view of the Board that notwithstanding this and any limitations imposed by virtue of the CMA Pennon Review process on the participation of the three newly designated Pennon Group NEDs in the business of Bristol Water, the Board continues to have the range of skills, background and experience that will allow it to continue to be effective in scrutinising and challenging the executive team.

I should also mention my own continued role as Chairman of the Company. On 12 July 2021 I will have been Chairman of Bristol for nine years and in normal circumstances would have stepped down at that time to allow a new Chair to lead the Board forward. However, I have been asked to remain as Chairman whilst the CMA concludes its Review.

During this period, I will continue to focus on maintaining a Board which is diverse with their broad range of skills, backgrounds and perspectives.

I am pleased to say that, as a result of the close working of the Board together with the wider executive management team of Bristol Water in the past year to meet the challenges faced by the Company, the relationships within the Board and the levels of support and challenge to the Board and the executive management team have been developed and strengthened further in 2020/21 and have enhanced the Board's effectiveness and responsiveness to the challenges faced by the business.

More details on the scope of the Board's activities, discussions and actions are detailed on page 67.

Keith Ludeman
Chairman
9 July 2021

Board of Directors



Keith Ludeman
Chair of Board and of Nomination Committee
Mr Ludeman was appointed to the Board in July 2012. He is the Non-Executive Chairman of the London Transport Museum, the Chairman of HS1 Limited and ten other subsidiary companies within the high-speed rail infrastructure group. He is also an Independent Non-Executive Director of Eversholt Rail Group and acts as the Senior Independent Director of Eversholt Rail Group for governance purposes. He is also Chairman of London Luton Airport and an advisor to Lloyds Development Capital. Formerly he was Chief Executive Officer of Go-Ahead Group plc and has over fifty years' experience in the transport industry.



Mel Karam
CEO, Member of the Safety Committee
Mr Karam joined the Company in April 2017 as CEO. Prior to joining the Company, he was Partner and Global Head of Asset Management at KPMG International leading their work across 25 countries. Mr Karam has over 25 years of experience in operations asset management and capital delivery in the power and utility sector with senior positions in British Gas, National Grid, Thames, and Southern Water.



Laura Flowerdew
CFO
Ms Flowerdew was appointed to the Board on 1 October 2018. Ms Flowerdew is a Fellow of the Institute of Chartered Accountants and joined the Company from Bristol Energy where she held the role of

Finance Director. Ms Flowerdew has also held senior finance roles at Anglo American Plc, De Beers Group and Tribal Group Plc. Prior to that, she was a Director at Deloitte in their Energy and Utilities business. She is also a Non-Executive Director of Bristol and Wessex Billing Services Limited.

Tim Tutton
Senior Independent Non-Executive, Member of the ARAC, Nomination and Remuneration Committees
Mr Tutton was appointed to the Board in January 2015. He is an economic consultant specialising in economic regulation, especially in the energy sector. His previous roles have included UK Director of Regulation at National Grid, Director of UK Utility Regulation at PricewaterhouseCoopers LLP, a senior advisor at Oxera and a Panel Member at the Competition and Markets Authority.

Paul Francis
Independent Non-Executive, Chair of ARAC, Member of Nomination and Remuneration Committees
Mr Francis joined the Board on 25 June 2018 as an Independent Non-Executive Director. He is a Chartered Accountant with 30 years' experience in the rail and transport sector. Until his retirement in 2017, he was CEO of Porterbrook Leasing. Mr Francis resigned from the Board of BW on 24 June 2021.



Jeremy Bending
Independent Non-Executive, Chair of the Safety Committee, Member of the ARAC, Nomination and Remuneration Committees

Mr Bending joined the Board on 25 October 2018 as an Independent Non-Executive Director. Mr Bending has over 40 years' experience in the power and utilities sector and was previously Chief Operating Officer of National Grid Gas Distribution and Director of Network Strategy at National Grid. He is a Chartered Engineer and a member of the Institute of Asset Management. Mr Bending is a Non-Executive Director of Phoenix Natural Gas Limited, Glover Gas and Power BV and a Director and owner of Armco Solutions Limited.



Jim McAuliffe
Independent Non-Executive, Chair of Remuneration Committee, Member of the ARAC, and Nomination Committees

Mr McAuliffe was appointed to the Board on 29 November 2018. Mr McAuliffe is a Chartered Accountant and held the role of Finance Director at Bristol Airport from 2002 until July 2018. He remains a trustee of the Bristol Airport Pension Scheme. Mr McAuliffe is also a member of the Board of Lighthouse Relief, a Swedish NGO which provides emergency relief and long-term support to refugees in Greece, a consultant with the Management Consultancy Crucial Connexions and a Parish Councillor in his local village in Somerset.



Hajime Ichishi
Non-Executive, Member of the ARAC, Nomination and Remuneration Committees

Mr Ichishi was appointed to the Board of Bristol Water on 10 May 2012. He is a Manager at the ITOCHU Corporation of Japan, responsible for development of Itochu's water, environment, social and transportation infrastructure sector project in Europe, the Middle East, Africa, CIS and North and South America. He has held various senior positions within the Itochu group. He is also a Non-Executive Director of Bristol Water Group Limited. Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited. Mr Ichishi resigned from the Boards of Bristol Water plc, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition.



Paul Malan
Non-Executive, Member of the Nomination and Remuneration Committees

Mr Malan is the Senior Partner of iCON Infrastructure LLP, an independent infrastructure investment firm which he founded in 2011. Mr Malan has over 20 years of experience in infrastructure advisory and investment at iCON Infrastructure LLP, Deutsche Bank AG and Macquarie Bank Limited. He

was appointed to the Board on 7 July 2016. Mr Malan is a Non-Executive Director Bristol Water Group Limited. Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited. Mr Malan resigned from the Boards of Bristol Water plc, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition.



Indradoot Dhar
Non-Executive, Member of ARAC
Mr Dhar is a member of the iCON Infrastructure LLP team where he focuses on asset oversight and risk management. Prior to joining iCON Infrastructure, he worked at Cambridge Associates, a global investment consultancy firm, and Deutsche Bank AG. He was appointed to the Board on 8 May 2018. Mr Dhar is a Non-Executive Director of Bristol Water Group Limited. Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited. Mr Dhar resigned from the Boards of Bristol Water plc, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition.

management. Prior to joining iCON Infrastructure, he worked at Cambridge Associates, a global investment consultancy firm, and Deutsche Bank AG. He was appointed to the Board on 8 May 2018. Mr Dhar is a Non-Executive Director of Bristol Water Group Limited. Until completion of the Pennon Acquisition on 3 June 2021 he was also a Director of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited, and Bristol Water Holdings UK Limited. Mr Dhar resigned from the Boards of Bristol Water plc, Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition.

Paul Boote
Non-Executive

Paul was appointed to the Board of Bristol Water plc, and to the Boards of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition. Paul is Pennon Group's Group Finance Director and is a member of the Pennon Group Board. He is a chartered accountant with over 20 years' experience and prior to his appointment as Group Finance Director of Pennon Group, held a number of senior roles in that organisation, most recently as Pennon's Director of Treasury, Tax and Group Finance. Paul has worked for Pennon Group for over ten years and prior to that held a series of senior finance roles in the sport, construction and environmental infrastructure industries.

Neil Cooper
Non-Executive

Neil was appointed to the Board of Bristol Water plc, and to the Boards of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition. Neil has been an Independent Non-Executive Director of Pennon Group since 2014 and was appointed Senior Independent Non-Executive Director of Pennon Group Board in July 2020. He is also an Independent Non-Executive Director of South West Water Limited. He has extensive experience in a wide variety of corporate and financial matters. He is also the Chief Financial Officer of Currencies Direct, a foreign exchange broker and international payment provider.

Iain Evans
Non-Executive

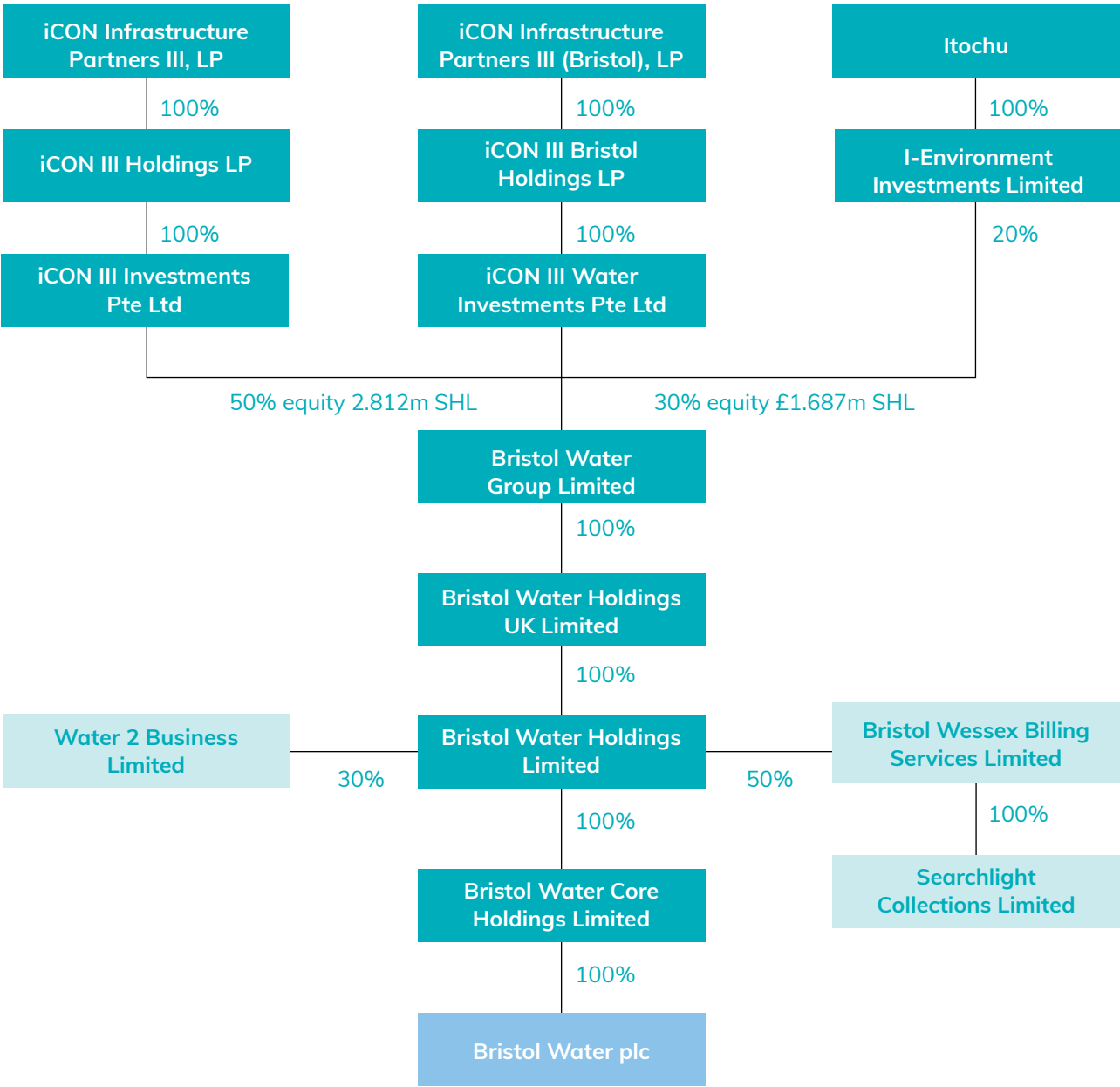
Iain was appointed to the Board of Bristol Water plc, and to the Boards of Bristol Water Core Holdings Limited, Bristol Water Holdings Limited and Bristol Water Holdings UK Limited on 3 June 2021 on completion of the Pennon Acquisition. Iain has 40 years' experience in advising companies and governments on complex corporate strategic matters and is a co-founder of L.E.K. Consulting. Iain has been an Independent Non-Executive Director of Pennon Group since 2018. He is also an Independent Non-Executive Director of South West Water Limited and of Bologna Topco Limited and continues to act as a corporate strategy consultant.



Ownership and corporate structure

The Board of Bristol Water seeks to uphold the highest standards of transparency and openness in performing its functions and dealing with all our stakeholders. A key aspect of this relates to the ownership of Bristol Water plc. Set out below are details of the ownership of Bristol Water plc prior to the completion of the Pennon Acquisition, and on and following completion of the Pennon Acquisition including the value of any shareholder loans ("SHL").

Ownership and Corporate Structure Prior to the Pennon Acquisition on 3 June 2021:
Prior to the Pennon Acquisition the Company was indirectly owned by two infrastructure funds managed by iCON Infrastructure LLP (80% in total) and Itochu Corporation (as to 20%) and the corporate structure of the Company was as follows:



Ownership and Corporate Structure Prior to the Pennon Acquisition on 3 June 2021 (continued)

Company	Company Details	Directors
iCON Infrastructure Partners III, LP	English limited partnership, domiciled in Guernsey	No Designated Members Managing General Partner – iCON Infrastructure Management III Limited
iCON Infrastructure Partners III (Bristol), LP	English limited partnership, domiciled in Guernsey	
iCON III Holdings LP	Singapore limited partnership, domiciled in Singapore	No Designated Members General Partner – iCON Infrastructure Management (Singapore) Pte. Ltd
iCON III Bristol Holdings LP	Singapore limited partnership, domiciled in Singapore	No Designated Members General Partner – iCON Infrastructure Management (Singapore) Pte. Ltd
iCON III Investments Pte. Ltd	Singapore incorporated limited company, domiciled in Singapore	Allen Tan Han Loong Indradoot Dhar Edmund Tang Koon Kay* Ronald Tan Tsung Hui** *Resigned on 9 December 2020 ** Appointed on 9 December 2020
iCON III Water Investments Pte. Ltd	Singapore incorporated limited company, domiciled in Singapore	Allen Tan Han Loong Indradoot Dhar Edmund Tang Koon Kay* Ronald Tan Tsung Hui** *Resigned on 9 December 2020 ** Appointed on 9 December 2020
Bristol Water Group Limited	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021
Bristol Water Holdings UK Limited Wholly owned by Bristol Water Group Limited	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021
Bristol Water Holdings Limited Wholly owned by Bristol Water Holdings UK Limited	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021
Bristol Water Core Holdings Limited Wholly owned by Bristol Water Holdings Limited	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021
Bristol Water plc Wholly owned by Bristol Water Core Holdings Limited	Incorporated in England & Wales Holds Water Undertaker Licence under Water Industry Act 1991	Details of Directors on pages 53-55
Bristol Wessex Billing Services Limited 50% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Joint venture billing company	Colin Skellet Andrew Pymmer Ben Newby* Richard Price** Laura Flowerdew *Ben Newby resigned on 16 March 2021 **Richard Price was appointed on 16 March 2021
Searchlight Collections Limited Wholly owned by Bristol Wessex Billing Services Limited	Incorporated in England & Wales Debt collection company	Alex Chapman Amy Badman
Water 2 Business Limited 30% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Non-household retailer Holds water supply licence	Jeremy Smith* Alan Morgan Mark Watts *Jeremy Smith resigned on 3 June 2021

Ownership and corporate structure

As at 31 March 2021 and until completion of the Pennon Acquisition, 80% of Bristol Water was ultimately owned by two investment funds (the “iCON Funds”) which are affiliated with iCON Infrastructure LLP (“iCON”), with the remaining 20% of Bristol Water then being owned by I-Environment Investments Limited, a UK subsidiary of Itochu Corporation (“Itochu”). The iCON Funds interests were split as follows: iCON Infrastructure Partners III, L.P. (“iCON III”) owned 50% and iCON Infrastructure Partners III (Bristol), L.P. (“iCON Bristol”) owned 30%.

The iCON Funds owned their interests in Bristol Water since 2016 and were constituted as English limited partnerships domiciled in Guernsey. The iCON Funds employed typical partnership structures used for institutional investment, pursuant to which partners themselves (rather than the partnership) are taxable on their share of any profits or gains of the partnership as and when these arise.

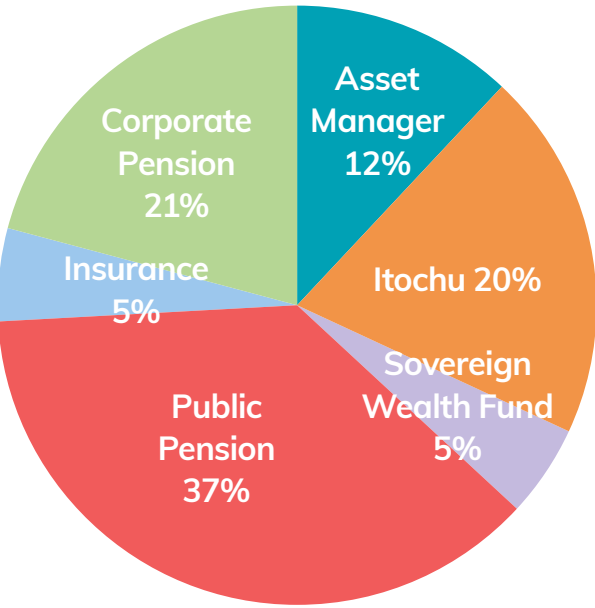
Ownership and Corporate Structure Prior to the Pennon Acquisition on 3 June 2021 (continued):

The ultimate investors in the iCON Funds were pension funds, asset managers and insurance companies from countries around the world including the UK, Germany, France, Canada, the United States and Japan. Further information concerning iCON, which is an experienced investor in the UK water sector, can be found at www.iconinfrastructure.com

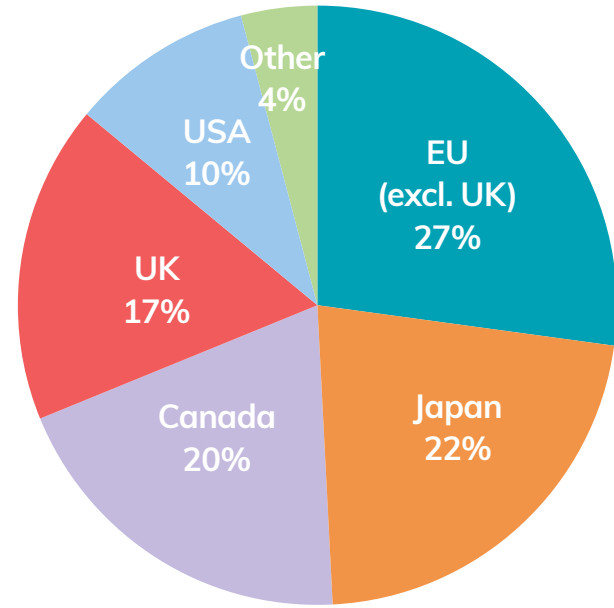
Itochu owned its indirect 20% shareholding in Bristol Water since 2012. Itochu is a diversified group based in Japan which is listed on the Tokyo stock exchange. Further information concerning Itochu can be obtained at www.itochu.co.jp/en

The graphs below show the beneficial ownership of Bristol Water as at 31 March 2021 by both investor type and country:

Beneficial Ownership by Investor Type



Beneficial Ownership by Country



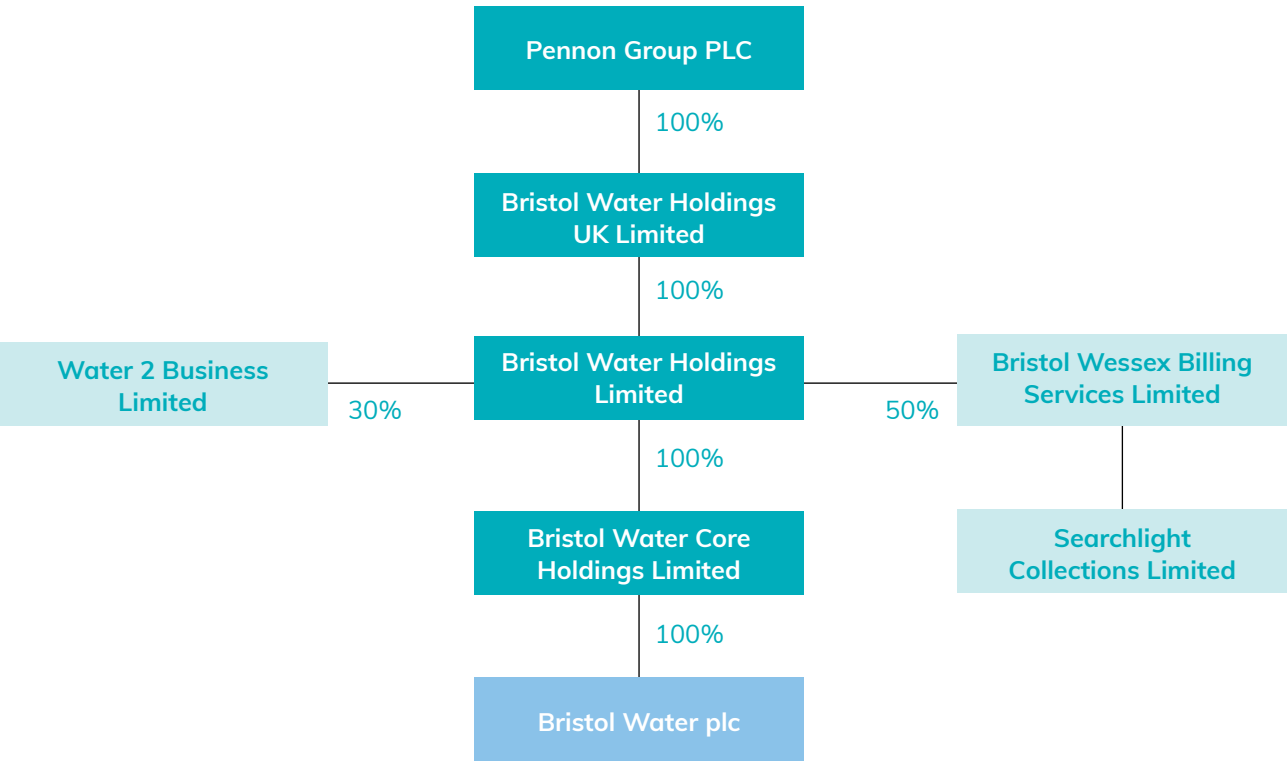
As at 31 March 2021, the ultimate holding company of Bristol Water was Bristol Water Group Limited (“Bristol Water Group”), a UK incorporated and UK tax resident company. The iCON Funds and Itochu were, as at that date and until completion of the acquisition by Pennon group on 3 June 2021, indirect investors in Bristol Water Group. The iCON Funds held their interests in Bristol Water Group through intermediate holding entities domiciled in Singapore (as detailed in the group ownership structure on page 56). Itochu owned its shareholding through a UK incorporated and UK tax resident holding company, a 100% owned subsidiary of Itochu Corporation.

Until 3 June 2021, Bristol Water Group owned 100% of Bristol Water indirectly through three further wholly-owned, UK incorporated and UK tax resident holding companies, namely Bristol Water Holdings UK Limited (Bristol Water Holdings UK), Bristol Water Holdings Limited (Bristol Water Holdings)

and Bristol Water Core Holdings Limited (Bristol Water Core Holdings). Bristol Water Holdings, the intermediate holding company, also owned (and continues to own) a 30% shareholding in Water 2 Business Limited and a 50% shareholding in Bristol Wessex Billing Services Limited, alongside its 100% indirect shareholding in Bristol Water.

Ownership and Corporate Structure on and following completion of the Pennon Acquisition on 3 June 2021

On 3 June 2021 Pennon Group acquired the entire issued share capital of Bristol Water Holdings UK Limited from the Bristol Water Group Limited. With effect from the completion of the Pennon Acquisition, Bristol Water plc became an indirect wholly owned subsidiary of Pennon Group. The new corporate structure with effect from the completion of the Pennon Acquisition is set out below:



The structure chart above does not show any subsidiaries or affiliates of the Pennon group of companies other than those who have direct or indirect shareholdings in shareholdings in Bristol Water plc or who are affiliates of a direct or indirect parent company of Bristol Water plc. Details of Pennon Group plc’s other subsidiaries and affiliates can be found in the latest published annual report and accounts of Pennon Group plc.

Ownership and corporate structure

The Ownership and Corporate Structure following the Pennon Acquisition on 3 June 2021 (continued):

Company	Company Details	Directors
Pennon Group plc	Incorporated in England and Wales Holding company	Gill Rider Susan Davy Paul Boote Neil Cooper Iain Evans Claire Ighodaro Jon Butterworth
Bristol Water Holdings UK Limited Wholly owned by Pennon Group plc	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021 Paul Boote** Neil Cooper** Iain Davies ** **Appointed on 3 June 2021
Bristol Water Holdings Limited Wholly owned by Bristol Water Holdings UK Limited	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021 Paul Boote** Neil Cooper** Iain Davies ** **Appointed on 3 June 2021
Bristol Water Core Holdings Limited Wholly owned by Bristol Water Holdings Limited	Incorporated in England & Wales Holding company	Hajime Ichishi* Paul Malan* Indradoot Dhar* *Resigned on 3 June 2021 Paul Boote** Neil Cooper** Iain Davies ** **Appointed on 3 June 2021
Bristol Water plc Wholly owned by Bristol Water Core Holdings Limited	Incorporated in England & Wales Holds Water Undertaker Licence under Water Industry Act 1991	Details of Directors on pages 53-55
Bristol Wessex Billing Services Limited 50% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Joint venture billing company	Colin Skellet Andrew Pymer Ben Newby* Richard Price** Laura Flowerdew *Ben Newby resigned on 16 March 2021 **Richard Price was appointed on 16 March 2021
Searchlight Collections Limited Wholly owned by Bristol Wessex Billing Services Limited	Incorporated in England & Wales Debt collection company	Alex Chapman Amy Badman
Water 2 Business Limited 30% owned by Bristol Water Holdings Limited	Incorporated in England & Wales Non-household retailer Holds water supply licence	Jeremy Smith* Simon Pugsley** Alan Morgan Mark Watts *Jeremy Smith resigned on 3 June 2021 **Simon Pugsley was appointed on 4 June 2021

Financing and dividend policy of the group with its ultimate shareholders:

During the year, Bristol Water paid dividends of £6.0m (2020: £6.3m) to its immediate holding company Bristol Water Core Holdings Limited. Of this dividend, £1.6m was returned to Bristol Water in respect of interest owing on intragroup debt facilities (see below under 'Group financing arrangements') and the £4.4m balance was to part re-pay loans provided by Bristol Water Holdings UK Limited as described below. No dividends were paid during the year (2020: £nil) by Bristol Water Group Limited to the holding companies of Itochu or the iCON Funds.

There are no long term shareholder loans provided by the ultimate owners of Bristol Water, (prior to completion of the acquisition on 3 June 2021, the iCON Funds and Itochu and upon and following completion of such acquisition by Pennon Group to Bristol Water Group Limited or Bristol Water Holdings UK Limited or any of their respective subsidiaries (including Bristol Water)).

In December 2016, the iCON Funds and Itochu contributed £9.0m additional funds to the group. These funds were provided on a short term, non interest-bearing basis to Bristol Water Group by the holding companies of the iCON Funds and Itochu, pro-rata to their ownership interests in Bristol Water Group. They were on-lent by Bristol Water Group to Bristol Water Holdings UK to fund payments to Agbar, a previous part owner of Bristol Water Holdings UK, on 15 December 2016 in connection with the ending of an operations and maintenance arrangement between Agbar and Bristol Water Holdings UK. In 2019 the repayment date of these loans was extended to 31 December 2021 and the principal amount outstanding of the loans as at 31 March 2021 was £5.6m (2020: £5.6m). On completion of the acquisition of Bristol Water by Pennon Group on 3 June 2021, Pennon Group plc became the lender of record of these loans in place of iCON Funds and Itochu.

As at 31 March 2021, Bristol Water's net debt, excluding preference shares, was £379m (2020: £372m) corresponding to a ratio of 68.9% of its regulated asset base, which is in reasonably close proximity to the 60% notional capital structure that Ofwat assumed for water companies in AMP7. The net debt of the consolidated group comprising as at 31 March 2021 Bristol Water Group and its subsidiaries is also consistent with Ofwat's assumption, after adjusting for the £5.6m of short term receivables and accounting for market-to-market adjustments for debt arising at the time of Bristol Water Group's acquisition of its interests in the group.

Group financing arrangements

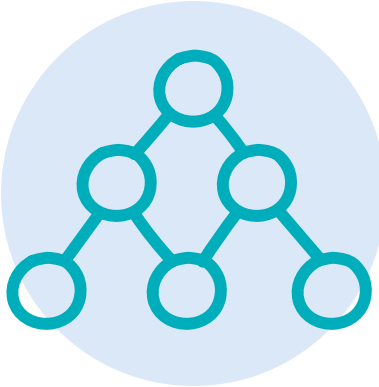
There are two upstream loans from Bristol Water to its intermediate 100% shareholder Bristol Water Holdings UK Limited: a £47.0m (2020: £47.0m) loan earning interest of 6.042% and a £14.1m (2020: £18.5m) loan earning interest of 5.550% (together the "Upstream Loans"). These loans were advanced to the Company in 2003 and 2005, respectively. Bristol Water received interest payments of £3.3m net of tax in respect of the Upstream Loans from Bristol Water Holdings UK in the year ended 31 March 2021 (2020: £3.3m). These interest payments were partially funded by dividends received from Bristol Water. These Upstream Loans are entirely internal to the consolidated group being as at 31 March 2021 headed by Bristol Water Group Limited.

Governance

Prior to the Pennon Acquisition, iCON had confirmed that the iCON Funds were aware and supportive of Ofwat's Principles of 'Board leadership, transparency and governance' published in January 2019 (the "Ofwat Principles"), which sets out Ofwat's expectations for holding companies of regulated water companies to show their adherence to the highest standards of corporate governance. Compliance with these principles became a condition of the Company's undertaker's licence with effect from August 2019.

Following the acquisition on 3 June 2021 Pennon Group plc became the indirect ultimate holding company of Bristol Water. It is also the ultimate holding company of South West Water Limited (incorporating also Bournemouth Water) and as such is fully aware and supportive of the Ofwat Principles.

There is a list of matters that are reserved for the Board of Bristol Water which indicates where shareholder approval may be required. This is available on our website¹. Where shareholder approval is required, this is obtained prior to approval by the Bristol Water Board.



¹ <https://www.bristolwater.co.uk/about-us/our-performance/legal/company-information/>

Ownership and corporate structure

During 2020/21 all Board decisions were made by the Bristol Water Board and no decisions were reserved for shareholders.

iCON confirmed on behalf of iCON III that as at 31 March 2021 and until completion of the Pennon Acquisition, other than iCON III's limited partners and iCON III's direct and indirect wholly-owned subsidiaries, there were no other beneficiaries of the regulated Company within the iCON group structure.

With effect on and from 3 June 2021 Pennon Group has confirmed that other than Bristol Water Holdings UK Limited, Bristol Water Holdings Limited and Bristol Water Core Holdings Limited there were no other beneficiaries of the regulated Company within the Pennon Group structure.

iCON on behalf of iCON III in its capacity as managing general partner of iCON III, gave an undertaking compliant with Condition P of the Company's licence (a "Condition P Undertaking") when it took control of the Company (the "iCON Condition P Undertaking").

The iCON Condition P undertaking was withdrawn and replaced by an undertaking from Pennon Group compliant with Condition P of the Company's Licence when Pennon Group took control of the Company on 3 June 2021 (the "Pennon Condition P Undertaking").

iCON confirmed, on behalf of iCON III in its capacity as managing general partner of iCON III, in respect of the period 1 April 2020 until it ceased to be the ultimate controller of Bristol Water on completion of the acquisition on 3 June 2021, and Pennon Group plc, in its capacity as the ultimate parent company of the Company with effect from completion of the Acquisition, that:



- It had been briefed on Bristol Water's duties under the Water Industry Act 1991 and the licence;
- It was aware of and would comply with the terms of its Condition P Undertaking, including:
 - Its obligation to provide all such information as may have been necessary to enable Bristol Water; to comply with the requirements of the conditions of its appointment as a water undertaker; and
 - It would refrain from any action which would or may have caused Bristol Water to breach any of its obligations under the Water Industry Act 1991 or the conditions of its appointment as a water undertaker;
- It would provide Bristol Water with the information it needed to assure itself that Bristol Water is not at risk from the activities of the wider Bristol Water group;
- It would disclose to Bristol Water details of any issue identified by its Directors in respect of the Bristol Water group that might have materially impacted upon Bristol Water so that Bristol Water could take all appropriate steps;
- It would facilitate the ability of Bristol Water to meet the requirements of its Code of Corporate Governance; and
- It would support Bristol Water's ability to make strategic and sustainable decisions in the long-term interests of the Company.

Pennon Group has confirmed with effect on and from 3 June 2021 (being the date of completion of the Pennon Acquisition in its capacity as the ultimate parent company of Bristol Water with effect on and from 3 June 2021 that for so long as it remains the ultimate controller and Bristol Water retains its appointment as a water undertaker:

- It will give to Bristol Water and will procure that each of its subsidiaries (other than Bristol Water and its subsidiaries) will give to Bristol Water all such information as may be necessary to enable Bristol Water to comply with its obligations under the Water Industry Act 1991 or the conditions of Bristol Water's instrument of appointment as a water undertaker; and
- It will refrain, and will procure that each of its subsidiaries (other than Bristol Water and its subsidiaries) will refrain, from any action which would or may cause Bristol Water to breach any of its obligations under the Water Industry Act 1991 or its instrument of appointment as a water undertaker.

Corporate Governance Report

Principles of Corporate Governance

In May 2019 Bristol Water adopted a new Corporate Governance Statement (the "BW Corporate Governance Statement") which had effect from April 2019 and replaced the Company's former Corporate Governance Code. The BW Corporate Governance Statement confirms the Board's commitment to maintaining trust in Bristol Water's reputation for high standards of conduct, beyond just as a dependable provider of an essential water service. The statement also confirms the Board's commitment to compliance with the UK Corporate Governance Code as published by the Financial Reporting Council in 2018 (the "UK Corporate Governance Code") and the Ofwat Principles. The Ofwat Principles are set out in the Ofwat document "Board leadership, transparency and governance" published in January 2019 and re-enforce the UK Corporate Governance Code. With effect from August 2019, Compliance with the Ofwat Principles became a condition of the Company's water undertaker's Licence ("Water Licence").

The Corporate Governance Statement is available on our website²; and our Long-Term Viability Statement can be found on pages 43-47.

Bristol Water is a private company with listed debt including Cumulative Irredeemable Preference Shares but no listed ordinary shares as categorised as a 'standard listing' on the main market of the London Stock Exchange. It is therefore not under an obligation to report compliance with the UK Corporate Governance Code. However, the conditions of our Water Licence require us to report as if we have a 'premium listing'. The Board is pleased to confirm that Bristol Water complied with the provisions of the Ofwat Principles and also the UK Corporate Governance Code, with four exceptions, namely that the Company does not have a majority of INEDs appointed to the Board and due to the relatively small size of Company the ARAC and Remuneration Committees do not comprise solely of INEDs. In addition, the Company does not consult with the general workforce on matters of executive remuneration.

Both prior to, on and following the Pennon Acquisition the Board composition was and remains diverse and covers a mix of skills and expertise as well as regional connections. Accordingly, given the relatively small size and turnover of the Company it is not considered necessary or proportionate to

appoint additional Directors solely for the purpose of compliance with this provision of the Corporate Governance Code.

The requirement in the Ofwat Principles that the INEDs comprise the largest group on the Board is met.

As summarised on pages 53-55 as at 31 March 2021 and up to and including 24 June 2021 there are four INEDs of the Company on the Board plus our Chairman. With effect from and including 25 June 2021 the number of INEDs will be reduced to three following the retirement of Paul Francis on 24 June 2021. Our NED Chairman is not considered independent for the purposes of the UK Corporate Governance Code. Recruitment of a new INED to replace Paul Francis will be deferred until completion of the CMA Pennon Review. Ofwat has indicated that it does not object to a deferment of the recruitment of a new INED to replace Paul Francis in the light of the acquisition and the CMA Pennon Review.

The Board also includes two Executive Directors - the CEO and CFO and a further three NEDs. These three NEDs comprised, prior to completion of the Pennon Acquisition, two Directors designated by the iCON Funds (Paul Malan and Indradoot Dhar) and one designated by Itochu Corporation (Hajime Ichishi). Upon and following completion of the Pennon Acquisition these three NEDs comprise Directors designated by Pennon Group (Paul Boote, Neil Cooper and Iain Evans), albeit that pending completion of the CMA review of the Acquisition there are restrictions on their participation in Board meetings and other Board matters.

² <https://f.hubspotusercontent30.net/hubfs/7850638/Site%20Assets/Offline%20docs/Bristol-Water-Corporate-Governance-Statement-July-2019.pdf>

Corporate Governance report

The table below gives an indication of the key specific areas of skills and experience that Board members provide, mapped against the principal Board skills and experience requirements of Bristol Water.

Role of the Board

The Board is committed to run the Company in the best long-term interests of our customers, shareholders and wider stakeholders. Pending the completion of the CMA Pennon Review the Company will remain run as an independent water company without the substantive involvement of Pennon Group or any of the original Pennon Group businesses so as to retain its integrity as a separate water company within the sector.

The Board and its committees have overall responsibility for the management of the Company and its regulated business. They set the Company's values and standards, make strategic decisions, and provide leadership for the long-term success of the Company. We believe this can only be achieved if the activities of the Company are supported by appropriate governance processes, within a framework of effective controls, enabling risks to be managed and the necessary financial and human resources are in place for the Company to meet its objectives. The Board monitors the Company's compliance with its statutory and regulatory obligations to its customers, shareholders, regulators, other stakeholders and the environment.

The Board is responsible to all of the Company's stakeholders for the approval and delivery of the strategic objectives of Bristol Water, by ensuring that all financial, technical and human resources are in place and also lead the Company within an effective framework of monitoring and managing risk. These strategic objectives and its Business Plan for AMP7 remain in place following the acquisition of Bristol Water on 3 June 2021 and continue to be executed.

The Board executes overall control of the Company's affairs by reference to the schedule of matters reserved for its decision. These include the approval of strategy, financial statements, major capital expenditure, authority levels for expenditure, treasury, and risk management policies.

The Board delegates certain roles and responsibilities to the Committees, detailed below, in the Committee reports. These Committees assist the Board by focussing on their specific areas and making recommendations to the Board in line with their Terms of Reference. All decisions are formally made by the Board, informed by the recommendations to the Board made by the Committees.

The Board has a schedule of matters reserved specifically for the Board. This is available on the Bristol Water website. The Board delegates day-to-day and business management control to the Executive Directors in accordance with an approved scheme of delegation.

	Keith Ludeman	Tim Tutton	Jeremy Bending	Paul Francis*	Jim McAuliffe	Indradoot Dhar**	Hajime** Ichishi	Paul Malan**	Mel Karam	Laura Flowerdew	Paul Boote***	Neil Cooper**	Iain Davies***
Utility / Infrastructure Industry or Equivalent Experience	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Finance				✓	✓	✓	✓	✓		✓	✓		
Regulation	✓	✓	✓	✓					✓	✓			
Customer Experience	✓				✓				✓	✓			
Community	✓				✓				✓				
Health & Safety	✓		✓	✓					✓				
Infrastructure Investment	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Culture Change			✓		✓				✓	✓	✓	✓	✓
Corporate Governance	✓	✓		✓		✓		✓		✓	✓	✓	✓

* Paul Francis resigned on 24 June 2021
**Paul Malan, Indradoot Dhar and Hajime Ichishi resigned on 3 June 2021
***Paul Boote, Neil Cooper and Iain Evans were appointed on 3 June 2021

Board and Board committees

The Chairman

The Chairman, who is a NED, independent upon appointment, is responsible for the leadership of the Board and its effectiveness. The Chairman sets the agenda for the Board meetings, in consultation with management, providing adequate time for each agenda item. He is responsible for the culture of the boardroom which is one of openness, debate and constructive challenge, encouraging the effective contribution of all NEDs.

NEDs

The NEDs monitor the performance of the Executive Directors and senior management, and form the majority of the members of four key Board committees, namely:

- Audit and Risk Assurance Committee which reviews the integrity of financial information, financial controls over the financial reporting process and risk management;
- Nomination Committee which oversees the Board composition and succession planning;
- Remuneration Committee which reviews company remuneration policy and Executive remuneration packages; and
- Safety Committee which reviews and oversees the Company's Health and Safety strategy, objectives and performance and events and circumstances affecting the Health and Safety of our employees, contractors, customers and the wider public.

By virtue of its remit, the Safety Committee necessarily comprises a number of operational senior managers of the Company. As a result, whilst there is not a majority of Independent NEDs appointed as members of the Safety Committee, it is chaired by an INED (Jeremy Bending).

The Ofwat Principles include requirements such as:

- independent directors (including an independent chairman) are the largest single group on the Board, compared with (i) executive directors, and (ii) NEDs who are not independent;
- the number of shareholders' representatives on the Board is not greater than the number of independent directors (excluding an independent chairman); and
- there are fewer executives than INEDs (including an independent chairman) on the Board.

We set out in our risk and compliance statement to Ofwat that we comply with all of Ofwat's Principles of Board Leadership, Transparency and Governance. A copy of the letters of appointment for NED are available to shareholders by writing to the Company Secretary.

Board meetings and attendance

The following table sets out the attendance of Directors at scheduled Board meetings during the financial year:

Members of the Board	Meetings attended	Max possible	Percentage attendance during appointment period
K Ludeman, Chairman	10	10	100%
M Karam, CEO	10	10	100%
L Flowerdew, CFO	10	10	100%
P Malan*, NED	10	10	100%
H Ichishi*, NED	9	10	90%
T Tutton, INED	10	10	100%
I Dhar*, NED	10	10	100%
P Francis**, INED	10	10	100%
J Bending, INED	10	10	100%
J McAuliffe, INED	10	10	100%

* Resigned 3 June 2021
**Resigned 24 June 2021

Corporate Governance report

Board Composition

As at 31 March 2021 and as at 3 June 2021 the Board of Bristol Water (the “Board”) comprised the Chairman (a NED), two executive directors and seven other NEDs. Five of the NEDs (including the Chairman) are, in the opinion of the Board, independent (however, for the purposes of the UK Corporate Governance Code the Chairman is not considered as independent).

With effect from 25 June 2021 the Board will comprise nine Directors in all, namely the Chairman, the same two Executive Directors and six other NEDs, four of whom (including the Chairman) are, in the opinion of the Board, independent (save as aforesaid in the case of the UK Corporate Governance Code and the Chairman).

None of the NEDs have served for more than nine years on the Board. However, the Chairman will have served nine years on the Board with effect from 12 July 2021. The Chairman has been asked and has agreed to remain as Chairman at least until the CMA Pennon Review is complete which will mean that his period of tenure will exceed the nine years recommended as the maximum under the UK Corporate Governance Code.

There is clear segregation between the roles of Chairman and CEO to ensure appropriate Board balance and the Board has approved a specific statement on responsibilities for each role.



Independence of Non-Executive Directors

The Board considers each of its INEDs to be independent in character and judgement and there is no relationship or circumstance that is likely to affect (or could appear to affect) the judgement of such INEDs.

The Chairman was considered independent at the time of his original appointment in July 2012. However, the UK Corporate Governance Code on-going test of independence is not applicable in relation to the Chairman.

The INEDs constructively challenge and help develop proposals on strategy and bring independent judgement, knowledge, and experience to the Board’s deliberations. The INEDs are of sufficient calibre and number to ensure that their views carry significant weight in the Board’s decision making. This remains the case in the opinion of the Board notwithstanding the retirement of Paul Francis as an INED on 24 June 2021 and the replacement of the former shareholder representative Directors on behalf of the iCON Funds and Itochu with the shareholder representative Directors designated by Pennon Group on 3 June 2021.

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. Mr Tutton is the Senior INED on the Board and in the event that an individual does not wish to raise a concern with the Chairman, such concerns may be raised with Mr Tutton.

Board activities

The following details some of the matters considered during the year by the Board:

Topic	Discussion
Safety	<ul style="list-style-type: none">Company Health & Safety KPIsCompany Health & Safety Strategy and ObjectivesContractor Health & Safety KPIsSignificant Safety IncidentsSafe Control of Operations Procedure implementation
Customers	<ul style="list-style-type: none">Customer Service UpdatesC-MeX performance measures reviewConsumer Council for Water KPI performanceBilling platformFeedback from the Challenge Panel
People	<ul style="list-style-type: none">Results of Employee engagement surveysWellbeing of employeesImpact of transformation programme on employeesEquality, Diversity and Inclusion Strategy and Board engagementGender Pay GapSenior management team selection and developmentNegotiation with trade union of annual employee pay awardsApproval of annual employee pay awardsSuccession planningEmployee training and development
Operating Performance	<ul style="list-style-type: none">Impact of COVID-19Continual review of performance to AMP7 performance commitments and ODIsReview of general operating performanceResponses to incidentsContractor performanceCapital Programme deliveryLeakage performanceSupply Interruptions and Customer Minute Lost performanceMetering targetsTransformation and efficiency gains plansReview of water resources schemesPer Capital ConsumptionRecreations and Fisheries (non-appointed business)
Finance	<ul style="list-style-type: none">Annual budget approvalApproval of Annual Report and Accounts for the previous year ended 31 March 2020 and interim accounts for six months ended 30 September 2020Annual Performance Report and Assurance 2019/20Review of Artesian cash flow and investor reportsReview of financial performance against budget and forecastReview of impact of COVID-19 on cashflow and bad debt provisioningExternal debt funding requirementsReview of long-term financial viability and going concern statusReview of financial and credit metric performance against covenant and rating agency methodologyStrategy for the periodInternal audit programme and resultsBiannual review of corporate risks registerDividend payments approval
Regulatory	<ul style="list-style-type: none">Review of Final Determination and the necessity of requesting a referral of it to the CMAOversight and governance of Statement of Case for and conduct of CMA PR19 RedeterminationSocial Contract Strategy and ProgrammeAnnual Performance Report and AssuranceInterim Performance Report and AssuranceWater Resource Management PlansReview of licence and other regulatory consultationsCondition R Compliance StatementReview and approve the quarterly Ofwat Commitments Monitoring Report
Governance & Risk	<ul style="list-style-type: none">Major contract awards (of £1m or more value)Monitoring and review of performance of Network Maintenance delivery partnersReview of billing platformReview of material litigation and arbitrations (including arbitration with Canal and River Trust)Review of measures associated with prescribed statusReview principal risksReview of governance frameworkBoard effectiveness review and Chairman evaluationReappointment of external auditor and review of non-audit fees compliance with ethical standardsEffectiveness of internal controls and risk management processesGDPRRenewal of Policies and Procedures

Corporate Governance report

Accountability

The Board is responsible for presenting a fair, balanced and understandable assessment of Bristol Water's position and future outlook in the Financial Statements. The preparation of the Financial Statements and Annual Report is supported by a number of functions across the Company and numerous reviews are undertaken by the ARAC and the Board.

Details of how the Company generates and preserves value over the long term is set out in the Strategic Report on pages 7-47.

Evaluation of Board effectiveness

In accordance with Ofwat's "Principles of Board Leadership, Transparency and Governance" updated in January 2019, it is required that an annual evaluation of the performance of the Board is undertaken to ensure that its composition has the right balance of skills, experience, independence, knowledge and diversity, in addition to evaluating how stakeholder needs are addressed and how the overarching objectives of the Board are met.

The Board has established a formal process for the evaluation of the effectiveness of the Board and its Committees with an external review conducted every three years. During 2017/18, the Chairman engaged with Ann Bishop of Indepen Limited to undertake a Board Effectiveness Review. In 2019, and again in 2020, an internal Board Effectiveness Review (the "Effectiveness Reviews") were undertaken based on a questionnaire issued to Directors by the Company Secretary base on the original Indepen review questionnaires. In July 2020, the Chairman met with the Board to discuss the findings of the 2020 Effectiveness Review and to assess the performance of the Board based on those findings.

The recommendations include increasing the amount of time spent by the Board on strategy and strategic issues and continuing to improve the quality and timeliness of Board packs and information (noting however the improvements made since the 2019 Board Effectiveness Review).

The recommendations from the 2020 Board Effectiveness Review have continued to be implemented during this financial year and the Board regularly monitor progress.

Board packs are now provided in soft copy format only and all Board meetings since the onset of the pandemic in March 2020 have been held remotely via Microsoft Teams. Board interaction and engagement via Microsoft Teams has been good as has Board attendance. The Company Secretary continues to work closely with the Chairman of the Board and the Chairs of the various Board committees to improve the quality and relevance of information comprised in them and timeliness of delivery in advance of Board and committee meetings.

By necessity the opportunity for the Board to engage more extensively with strategic issues was limited by the need to focus on operational and financial issues arising out of the COVID-19 pandemic, the Company's Transformation Programme and the PR19 CMA redetermination which was finally published in March 2021. However, the Board did extensively oversee and scrutinise the Company's CMA PR19 Redetermination and, following a successful outcome for the Company of that redetermination, the Board met for a strategy day in March 2021 to consider an update to the Company's strategy for AMP7, taking into account the outcome of the CMA PR19 Redetermination.

The Board also oversaw and scrutinised the Company's Social Contract strategy programme which is crucial to the business and the successful delivery to its Business Plan and the Company's Equality, Diversity and Inclusion Strategy. This included an open mic week in the Company in March 2021 including a specific Board Members' open mic session in which all Bristol Water employees were invited to participate to explore equality, diversity, and inclusion at Bristol Water, what it means and the benefits it brings and how better to promote increased diversity and inclusion in the workplace.

A further internal Board Effectiveness Review is currently being conducted by BoardClic and the results and any additional recommendations to improve Board effectiveness will be discussed by the Board in July 2021. The focus of the review and recommendations is to ensure that the relationships within the Board develop and strengthen based on the actions taken in prior years following prior Board effectiveness reviews and that the Board's effectiveness is enhanced further.

The INEDs met virtually without the Executive Directors or shareholder representative Directors present on 5 August 2020.

The Senior INED and the NEDs met without the Chairman present on 23 July 2020 to appraise the Chairman's performance. The Senior Independent Director had, prior to the meeting, issued to Directors a Chairman Performance Evaluation Questionnaire, the results of which were reviewed at this meeting. The Senior INED and the NEDs are scheduled to meet again on 29 July 2021 to appraise the Chairman's performance. That further discussion will similarly be informed by the outcome of an external Chairman performance evaluation by BoardClic.

Such interaction ensures that the members of the Board, and in particular the NEDs, develop an understanding of the views of shareholders and vice versa.

Information and support

The Directors are provided with appropriate, accurate and relevant financial and operational information necessary for them to discharge their duties. The management information is prepared by senior management of the Company and produced on a timely basis for consideration and review by the Directors. Clarification, amplification and specific updates are provided as requested by Directors. Senior managers who are not Executive periodically attend the Board to provide appropriate levels of information on key issues.

Helen Hancock is the Company Secretary of Bristol Water plc. She is a qualified solicitor with over 30 years' experience in corporate, commercial and finance law. The Company Secretary is responsible for the provision of legal guidance and support as and when appropriate and on corporate governance matters. In furtherance of its duties, there are agreed procedures for the Directors to take independent professional advice, if necessary, at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The appropriateness of the information received is reviewed as part of the Board Effectiveness evaluation process carried out annually.

Induction and training of Directors

New Directors receive appropriate induction on their appointment to the Board covering the activities of the Company and its key business and financial risks, the terms of reference of the Board and its committees, and the Company's latest financial information. During 2020/21 there were no new appointments to the Board.

On-going training is provided as necessary and includes updates from the Company Secretary on changes to the Listing Rules, requirements under the Companies Act and the general laws of England and Wales, and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. The Chairman regularly reviews and agrees with Directors their training and development needs. Also, all the Directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the Chairman or the Company Secretary.





Corporate Governance report

Risk management and internal control

The Company has complied and continues to comply with the UK Corporate Governance Code provisions on internal control having established the procedures necessary to implement the guidance issued in 2014 by the Financial Reporting Council, Guidance on Risk Management and Related Financial and Business Reporting and by regular review and reporting in accordance with that guidance.

The Board has overall responsibility for the system of risk management and internal control, and for reviewing its effectiveness; whilst the role of management is to implement the Board policies on risk and control. The system of internal control is designed to manage risks to appropriate minima rather than eliminate any risk of failure in achieving business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board encourages a culture of risk identification and management across all aspects of the business, and uses the following main

processes to review the effectiveness of the system of internal control:

- with the onset of the COVID-19 pandemic, more frequent updates on changes in the business, risks arising and mitigating action plans have been taking place with the Board in order to manage closely this specific risk, predominately biweekly, although this has ceased since the easing of restrictions in April 2021;
- a regular risk identification, assessment and mitigation process, which is performed across the business, with robust challenge from the executive team before being submitted to the ARAC for review. The Board has regular discussions on known and emerging risks and controls, as supported by the ARAC;
- an internal audit plan is prepared on a rolling 3-year cycle, based on the key risks identified, and to ensure key mitigating controls operate effectively;
- regular reporting on key performance indicators, regulatory performance commitments and financial outcomes to gain visibility of the business and its operations;
- a Steering Group to oversee the Company Statement of Case and conduct of its CMA PR19

- Redetermination with a risk assessment of key risks for the Company and the identification of mitigations to such risks;
- a requirement for reporting to the Board of material litigation or arbitrations or reputational issues; and
- a robust whistleblowing procedure that is accessible to all employees, contractors, and suppliers. The board reviews, scrutinises and approves the whistleblowing policy and procedures of the Company annually, most recently in May 2021 and the Company Secretary is tasked with ensuring that the Board is notified and aware of any instances of whistleblowing promptly upon the Company becoming aware of the same.

The Executive Directors:

- have delegated to them the authority to manage the business and to implement internal control and risk management processes, specifically the Company has compiled a risk register containing the key risks it faces during the conduct of its business; and
- have established a system of KPIs and risk identification matrices.

In addition, the Company has a schedule of matters reserved for the Board which is available on our website, <https://www.bristolwater.co.uk/about-us/our-performance/legal/company-information/>

The Company operates through a formal board structure.

The Board:

- monitors compliance with the obligations of the Company under its licence as a water undertaker;
- considers material financing and investment decisions including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk;
- reviews on a regular basis a summary KPI report, which includes the identification of material risks and the actions taken to manage such risks;
- robustly reviews the effectiveness of the risk management process, and significant and emerging risks;
- reviews the role of insurance in managing risks;
- reviews and approves financial budgets and emerging financial results; and
- reviews and scrutinises the Company's Business Plans and responses in respect of the progress of the Ofwat Price Reviews (the most recent one being for the period 2020-2025 and the CMA redetermination of the outcome of that review in March 2021).

The ARAC:

- reviews internal and external audit work plans and commissions, where appropriate, reviews of specific issues;
- reviews and where appropriate, approves non-audit services undertaken by the statutory auditor;
- assesses the risk management and control arrangements including risk reporting;
- considers reports from management, internal and external auditors on the system of internal control and any material control weaknesses identified;
- discusses with management the actions taken on any problem areas identified by the Board members and management or in the internal and external audit reports; and
- the Chairman of the Committee reports the outcome of the ARAC meetings to the Board and the Board receives the minutes of all ARAC meetings.



The Safety Committee:

- reviews the Company's Health and Safety strategy and objectives;
- reviews and monitors the Company's performance against a range of leading and lagging Health and Safety key performance indicators;
- reviews significant accidents both within and outside the Company to identify Health and Safety learnings and best practice;
- reviews the impact of events and circumstances impacting significantly on the safe operation of the Company's business as a water undertaker;
- reviews changes to the Company's Health and Safety Policies and Procedures and new Health and Safety policies and procedures.

The Nomination Committee:

- identifies and recommends for approval candidates to fill board vacancies when required;
- reviews the structure, size and composition of the Board (including knowledge skills and experience) in the light of the Company's current requirements and future developments;
- makes recommendations regarding the membership of the ARAC in consultation with the Chair of the ARAC to satisfy itself with regard to succession planning, that processes and plans are in place with regard to both Board and senior management appointments;
- reviews annually the time needed to fulfil the role of Chair, senior independent director and each non-executive director (taking into account committee memberships); generally, has regard to the UK Corporate Governance Code and to the Company's Corporate Governance Code in carrying out its duties.

The ARAC undertook an updated assessment of risk management and control arrangements, including the risk register, in May and concluded that the overall internal control framework remained effective. A further report on internal risk controls and an update on significant risks to the Company was presented to the ARAC in May 2021.

The Remuneration Committee's activities and terms of reference are detailed in the Directors' Remuneration Report on pages 84-103.

Commitment

Sufficient time is available both for the Executive and NEDs to undertake their responsibilities. The expected time commitment is considered as part of the appointment process of NEDs including the requirement for additional commitment outside scheduled Board meetings when required including for induction. A defined expected time commitment is set out in the terms of appointment of NEDs.

Directors disclose their other commitments at the time of appointment. Further updates are made as required if a NED takes any additional commitment. Non-executive directorships are stated in the Directors' biographies.

Retirement and Re-election of Directors

All Directors are subject to election by shareholders at the first annual general meeting after their appointment. At the Annual General Meeting of the Company held on 30 September 2020, in accordance with the UK Corporate Governance Code, all Directors offered themselves for annual re-election by shareholders and were duly re-elected.

Relations with Shareholders

As at 31 March 2021 and until completion of the Pennon Acquisition on 3 June 2021, the Company was privately owned, and representatives of each private shareholder were Board members who participated actively and constructively in Board and Committee meetings.

Following completion of the Pennon Acquisition, the three Non-Executive Directors representing the iCON Funds and Itotchu resigned and three new shareholder representative Directors were appointed to the Board on 3 June 2021 representing Pennon Group's interest. There are currently restrictions on the involvement of those Directors in Bristol Water given the requirement that Bristol Water continues to be operated and run as an independent business without Pennon Group's involvement until conclusion of the CMA Pennon Review.

By necessity Board and committee meetings and interactions with shareholders were virtual throughout 2020/21 and continue to be so.

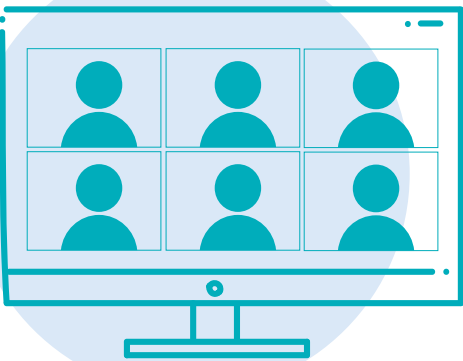
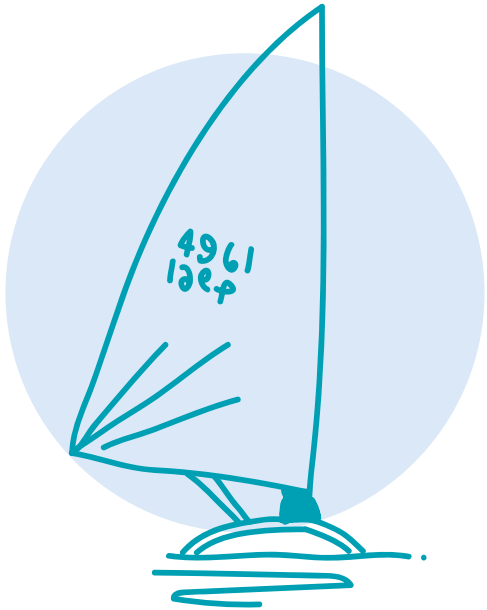
Directors' Conflicts of Interest and External Appointments

All Directors have a statutory duty to avoid situations where they have, directly or indirectly, a conflict of interest. Procedures are in place to disclose any such conflicts to the Board as they arise. During the year, no such conflicts arose.

Under its Instrument of Appointment as a water undertaker, the Company is subject to a number of ring-fencing conditions to protect it from the risks arising from other activities which may be carried out by other companies within the group so that the Company does not, whether through its involvement in those activities or by its financial policies, put at risk its ability either to carry out its functions as a water undertaker or to finance them.

The Nomination Committee Report, ARAC Report, Safety Committee Report and Remuneration Committee Report form part of this Governance Section and are contained on pages 74-103.

The Board Equality, Diversity and Inclusion Policy is contained within the Nomination Committee Report on page 75.



Nomination Committee report

Keith Ludeman, Chair of the Nomination Committee

Introduction
As Chair of the Nomination Committee, I am pleased to introduce the Nomination Committee report detailing its role and the work undertaken by the Committee during the year.



The Committee plays a key role in supporting the Board on its responsibility for succession planning and diversity.

Only members of the Committee have the right to attend Committee meetings; other individuals such as the CEO, Senior Management, the Head of HR and external advisors may attend, on an invitation only basis, as deemed appropriate.

The committee is chaired by Keith Ludeman, and comprises the following INEDs; Tim Tutton, Paul Francis (until his resignation on 24 June 2021), Jeremy Bending, Jim McAuliffe and, until their resignation on 3 June 2021, two shareholder NEDs, Paul Malan and Hajime Ichishi.

Nomination Committees Responsibilities
Under the Chairmanship of Mr Ludeman this committee has the task of:

- recommending new appointments to the Board and reviewing re-appointments when they become due;
- evaluating the balance of skills, knowledge and experience on the Board and, in the light of this, prepare a description of the role and capabilities required for a particular appointment;
- reviewing the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes; and
- undertaking annual performance evaluations of the Board Members.

Attendance during the financial year

Member of the Committee	Meetings attended	Maximum possible
Keith Ludeman	3	3
T Tutton, INED	3	3
H Ichishi, NED	3	3
Paul Malan, NED	3	3
Paul Francis, INED	3	3
Jeremy Bending, INED	3	3
Jim McAuliffe, INED	3	3

Mr Ludeman does not chair this Committee if it discusses the performance of the Chairman or the appointment of a new Chairman of the Board.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders on the Bristol Water website or by writing to the Company Secretary.

During the year, there were three meetings of the Nomination Committee A review of the structure, size and composition of the Board was conducted at a meeting of the full Board of Directors of the Company in March 2021.

Below is a summary of the Committee’s work during the year:

Meeting on 26 November 2020

- Succession planning for Chair

Meeting on 25 February 2021

- Succession planning for Chair
- Executive and Senior Management Succession Planning

Meeting on 25 March 2021

- Succession planning for Chair
- Board and Committees Composition
- Roles and responsibilities of NEDs and INED remuneration

Diversity and succession planning
The Board has a ‘Board Equality, Diversity Policy’ which was updated and approved by the Board on 29 November 2018 and updated on 13 May 2019 which confirms that the Board is committed to:

- all searches for the Board candidates being conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender, age and ethnicity; and
- satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior management to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

The Board Diversity Policy adopted in 2018 (as amended) remains in effect, albeit that there have been no new appointments to the Board.

Currently there is a single female representation at the Board level. In our workforce of 561 at 31 March 2021 around 29% were women. Whilst in senior management executive positions the female representation was around 23%. There

have been no vacancies at Board level since 2018, until the retirement of Paul Francis on 24 June 2021. In recruiting any replacement in due course, the Nominations Committee will have regard to, and comply with, the recommendations of the UK Corporate Governance Code with respect to the promotion of diversity of gender, ethnicity and social backgrounds in seeking to fill that appointment. It is not however considered proportionate to appoint additional members to the board in order to increase the gender or social or ethnic background diversity of the Board given the comparatively large size of the Board to the Company’s size and turnover.

As part of the 2019 and 2020 Board Effectiveness Review, detailed above, consideration was given to the number of external positions held by the NEDs to ensure that there was no over-boarding and that the Directors have sufficient time to commit to Bristol Water.

The Company’s stated core values are those of Trust, Accountability, Pride, Ambition, Supportiveness, Professionalism and Respect and it continues to seek to embed those values in everything it does.

The Board is committed to the principle of equal opportunities and equal treatment for all employees set out in the Company’s Equality, Diversity and Inclusion Policy. The full Board has discussed and reviewed the Company’s strategy for promoting greater equality, inclusion and diversity across its employee workforce in its Board meetings and continues to actively promote and monitor the Company’s strategy and actions to encourage greater diversity, equality and greater inclusion in the workplace and will continue to monitor developments in 2021/22. In particular, various Board members engaged in an open mic day on 8 March 2021 where all employees were offered the chance to quiz Board members on their experiences and views on equality, diversity and inclusion.

In 2020/21 the Company implemented a transformation programme across the business to support improvements in customer service, efficiency, and effectiveness. The programme involved extensive organisation redesign to increase efficiency, collaboration and accountability across the Company, to support innovation, and reduce the duplication of roles and responsibilities. To that end a new senior leadership team was created with a remit to deliver efficiency and improvements in performance and excellent customer experience in their part of the organisation.

Audit and Risk Assurance Committee report

Jim McAuliffe, Chair of the Audit and Risk Assurance Committee

Mr Francis retired on 24 June 2021 and Mr McAuliffe INED has been appointed Chair of the ARAC in his place with effect from 25 June 2021.

Introduction

As Chair of the ARAC, I am pleased to introduce our report on the role of the ARAC and the work undertaken during this year. The Board sees the ARAC as a critical component of our governance processes and sets out on the following pages details of our activities and discussions. In particular, the Committee continues to discharging its responsibility on the integrity of the Financial Statements, risk management, and internal controls and other risk and compliance matters.

Attendance during the financial year

The constitution of the Committee and attendance is summarised in the table below.

The Company considers that Paul Francis, Chair of the Committee until 24 June 2021 and Jim McAuliffe, Chair of the Committee from and including 25 June 2021, each possess the necessary recent and relevant financial experience to effectively chair the Committee. In addition, the Company considers that all the members of the Committee possess relevant skills and experience to meaningfully support the

activities of the Committee. The biographical details of all the members of the Company are shown on pages 53-55. The Company Secretary is secretary to the Committee with a background in corporate and debt finance.

In addition to the attendance set out above, the Chairman of the Board, CEO, CFO, External Auditors and Internal Auditors are invited to attend all meetings of the Committee. Other members of staff are also invited as appropriate.

The Committee holds private discussions with the internal and external auditors separately without management present. The Committee Chair holds separate one-to-one meetings with the CFO and external auditors to fully understand any issues or areas of concerns.

Committee's responsibilities

The ARAC's responsibilities include:

- ensuring the appropriateness of the Company's financial reporting, including the interim and annual financial statements and reviewing both accounting judgements and policies to ensure the presentation of the Company's activities is fair and balanced;
- oversight of the Internal and External Audit activities, including review of non-audit work undertaken by the statutory auditor;
- reviewing and challenging the risk management processes across the Company, including setting

- the Company's risk appetite; and
- reviewing and challenging the ongoing effectiveness of the internal control environment, including arrangements for raising concerns relating to fraud and similar matters.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders on the Bristol Water website or by writing to the Company Secretary.

Below is a summary of the Committee's work during the year:

Meeting on 21 May 2020

- Review of the progress on the Risk Compliance Statement, Long Term Viability Statement and Going Concern Statement for the Annual Report and APR;
- Review of key accounting policies, judgements and matters incorporated into the 2019/20 Annual Report and Accounts of the Company;
- Report from the external auditors on initial audit work and findings in relation to the 2019/20 Annual Report and Accounts of the Company;
- Review of the Corporate Risk Register;
- Approval of fees for audit and non-audit services; and
- Review of Project to update Company Policies and Procedures.

Meeting on 25 June 2020

- Review of the draft final Annual Report and Accounts of the Company for the year 2019/20 prior to recommending the same for approval by the Board;
- Review of the Company's Annual Performance Report for 2019/20 for submission to Ofwat including Long Term Viability Statement prior to recommending the same for approval by the Board;
- Review of compliance submissions under the Company's financing documentation;
- Report from the external auditors on initial audit work and findings in relation to the 2019/20 Annual Report and Accounts of the Company; and
- Further review of the draft Risk Compliance Statement, Long term Viability Statement and Going Concern Statement for the Annual Report and APR.

Meeting on 23 July 2020

- Approval of the Internal Audit plan for 2020/21 and indicative plans for 2021/22 and 2022/23.

Meeting on 29 October 2020

- Review of the Company risk register and associated mitigation action plans;

- Review of Project Falcon plans to update the billing system;
- Confirmation that the Company had been approved for certification under the Competent Operator Scheme administered by Energy and Utility Skills; and
- Review of Covid-19 Audit Report.

Meeting on 26 November 2020

- Review and recommendation for approval by the Board of the interim financial statements of the Company for the six months ended 30 September 2020 and the related going concern statement; and
- Review of Mid-year Performance Report.

Meeting on 25 February 2021

- Update from the Company's auditors on the new accounting ethical standard and implications for non-audit services;
- Approve the appointment of PricewaterhouseCoopers LLP as the Company's auditors for the year 2020/21;
- Receive a report from PricewaterhouseCoopers LLP on the proposed external audit plan for the Company's 2020/21 Annual Report and Accounts;
- Receive an update on the progress of internal audits currently being conducted;
- Approve the Company's Tax Strategy for 2020/21; and
- Review of the IT and cyber security business continuity plan.

Meeting on 25 March 2021

- Review the preparation for the audit and submission of the Annual Report and Accounts of the Company for 2020/21
- Receive a report on significant audit items for consideration in the preparation of the Annual Report and Accounts; and
- Receive a report on and recommended for approval by the Board the annual insurance renewals by the Company.



Audit and Risk Assurance Committee report

Significant accounting matters

A key responsibility of the Committee is the integrity of the financial statements and to ensure, on behalf of the Board, that the annual report and accounts, taken as a whole, were fair, balance and understandable and provided the information necessary for shareholders to access the Company's performance, business model and strategy. The Committee considered significant accounting matters and judgments in relation to the Company's financial statements and management presented a report setting out the approach to these areas. Details of how each of these was addressed are

shown in the table below. At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant accounting matters arising during the year and the areas of particular audit focus, as reported on in the independent auditors' report on pages 156-163. Section 4 of the notes to the financial statements also details the critical accounting estimates and judgements.

Significant accounting matter	Specific factors considered by the Committee in determining the judgements or estimates were appropriate:
Capitalisation of employment costs	The Committee reviewed employment costs capitalised to ensure the required criteria for capitalisation was met.
Long term Viability Statement and Going Concern Statement	The Committee reviewed the draft Long Term Viability and Going Concern outlook and risk scenarios and tested these with the CFO.
Bad debt provision	The Committee reviewed the key aspects of the calculation and has had detailed discussions with management about the judgement applied to the bad debt provision. This judgement either increases or decreases the provision calculation using historic collection rates, depending upon recent collection trends and economic factors. In particular, this also takes into account the impact of the COVID-19 global pandemic on customers and the Company.
Canal and River Trust Arbitration	The Committee reviewed the assumptions made by management, and the basis of, the provision of the costs of arbitration between the Company and the CRT in relation to the cost of CRT transporting raw water from the River Severn to the Company's treatment works at Purton and Littleton. The Committee also reviewed the basis on which the Company has accounted for the costs and the final costs incurred.
Referral for redetermination of the Company's Ofwat PR19 Final Determination to the CMA	The Committee reviewed the basis on which management provided for the costs of the conduct of the redetermination by the CMA of its PR19 Final Determination by Ofwat and the final costs incurred.

External Auditors

The Company's external auditors are PricewaterhouseCoopers LLP who have been the Company's auditors since 2012. The audit partner is Colin Bates who became the audit partner on 1 April 2017.

In accordance with best practice and professional standards, the Company requires its external auditor to adhere to a rotation policy whereby the audit partner is rotated after five years. The external auditor is also required to periodically assess whether, in its professional opinion, it is independent and to share those views with the Committee.

As a Public Interest Entity with debt listed on the London Stock Exchange, the Company is subject to the mandatory audit and rotation requirements of the EU. This means that the Company will put the external audit out to tender at least every ten years, and change auditors at least every twenty years. Under current regulations the external audit must be put out to tender by 2022.

Independence

In order to ensure the independence and objectivity of the external auditors, the Committee has reviewed:

- the external auditors' plan for the financial year, noting the role of the senior statutory audit partner, who signs the audit report;
- the arrangement for day-to-day management of the audit relationship;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- the overall extent of non-audit services provided by the external auditors, in addition to its case-by-case approval of the provision of non-audit services by the external auditors.

Effectiveness

To assess the effectiveness of the external auditors, the Committee has reviewed:

- the arrangements for ensuring the external auditors' independence and objectivity;
- the external auditors' fulfilment of the agreed audit plan and any variations from the plan; and
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements.

Based on the above assessments, the Committee is of the view that the external auditors are independent and effective.

Non-Audit fees

The Company has a policy for the provision of non-audit services aimed at safeguarding and supporting the independence and objectivity of the external auditor. The policy sets out the approach taken when using the services of the external auditor including non-audit services which are prohibited.

Before approving non-audit services, the Board considers whether it is in the interest of the Company that the services are procured from PwC rather than another supplier. Where PwC has been chosen, this is based on their detailed knowledge of our business and understanding of the Water Industry as well as demonstrating the required expertise. Non-audit services where the external auditor may be used include audit related services required by statute or regulation, regulatory support and Corporate Responsibility report reviews.



Audit and Risk Assurance Committee report

With effect from 1 April 2017, the EU introduced legislation which imposes a limit on the value of non-audit services that the auditors can undertake on behalf of the client. Permitted non-audit services are subject to a 70% cap of the average statutory audit fees paid in the last three financial years for the group and hence first impacts the year ending 31 March 2021.

During the year, PwC received £157,203 (2020: £79,100) in fees relating to the audit services they provided to the Company and £196,397 (2020: £110,907) for the Group, including audit related assurance work. Non-audit related work undertaken amounted to £42,435 (2020: £98,018) and significant work is set out below:

Nature of Service	Reason for PwC appointment	2019/20 fees £'000	2020/21 fees £'000
Audit related assurance services			
Assurance of regulatory returns	Audit of sections 1 & 2 of the Annual Performance report is closely linked to the Statutory Audit and the two are performed in parallel.	26	30
Other assurance services			
Assurance in connection with Ofwat regulatory reports	Agreed upon procedures relating to Wholesale Charges and RCV allocation.	3	3
	Agreed upon procedures relating to PR14 Reconciliation.	9	9
PR19 support	Water Industry knowledge and expertise in project planning, preparing evidence, drafting and editing Business Plans in the water and energy sector.	60	0
Inform subscription	Access to technical information.	1	0
Total non-audit fees		98	42
% of non-audit fees in respect of group audit fees		87%	21%

In autumn 2016, PwC were selected to be our Strategic Partner to review our Business Plan and make recommendations after comparing it to the strategic requirements of PR19, and to provide advice in respect of assurance required and reports received. PwC were selected for their operational insight and experience of the values and attributes required in the Business Plan submission to Ofwat. This team are based in the London office, whereas the audit work is performed by a team from the local Bristol office with a different management structure and expertise. A requirement of the selection process was that there is a clear ring-fencing of the separate functions. ARAC has no reason to believe ring fencing is not effective practice. The work was completed in the financial year 2019/20.

The detail of auditors' remuneration is provided in note 6 of the financial statements.

Internal auditors
The Company has a rolling internal audit plan which is reviewed and updated annually in order to align internal audit activities with the key risks affecting the Company as these evolve and are monitored through the corporate risk register (which is reviewed bi-annually by the ARAC). Internal audit services are provided by a combination of internal risk and compliance resource with appropriate subject matter experience and specialist external audit services providers in areas where risks are identified and thus assurance is sought over the associated controls and mitigations. The internal audit plan is prepared annually in conjunction with the Committee and the executive management team of the Company.

In the current year, we have worked with a number of assurance providers to gain detailed, comprehensive and expert assurance over individual areas. Such work has included assurance by Turner and Townsend on the accuracy of data in relation to our 2020/21 Annual Performance Report and assurance by PriceWaterhouseCoopers in relation to our Regulatory accounts comprised in our 2020/21 Annual Performance Report. The ARAC and Board have been provided with the output of such reports and have had the opportunity to challenge and question our assurance partners as part of the Board assurance process.



Safety Committee report

Jeremy Bending, Chair of the Safety Committee

As Chair of the Safety Committee, I am pleased to introduce the Safety Committee report detailing its role and the work undertaken by the Committee during the year.

In November 2018, the Board set up a Safety Committee which is a new sub-committee of the Board to which I was appointed as its Chair. The role of the Safety Committee is to focus on the responsibility for health and safety matters arising from the Company’s activities and operations.

Safety Committee Responsibilities

The Safety Committee:

- Reviews and make recommendations to the Board on the strategic direction for effective health and safety management, and to communicate, promote and champion health and safety issues;
- Keeps under review the adequacy of the framework of health and safety policies and procedures within the Company (including training and competency assessment), and compliance with relevant health and safety legislation;
- Reviews appropriate health and safety measures, performance targets and Key Performance Indicators for the Company;

- Reviews significant health and safety incidents & investigation reports, including near misses for both the Company and its third-party contractors;
- Considers injury and illness prevention measures within the annual health and safety plan aimed at enhancing standards and promoting a culture free from harm to people;
- Considers health and safety issues that may have strategic business and reputational implications for the Company and, where necessary, recommend appropriate measures, responses and targets (including performance targets and KPIs for Directors and senior managers);
- Considers public safety whilst on Company premises;
- Reviews related contractor and supplier performance; and
- Receives and reviews any relevant health and safety audits.

The Terms of Reference for the Committee were approved at a Board Meeting on 29 November 2018 and amended at a Board Meeting on 29 November 2019. Meetings are held at such times as the Committee deems appropriate, and at least four times a year.

Attendance during the financial year

Members of the Committee	Meetings attended	Max Possible
Jeremy Bending, Chair	4	4
M Karam, CEO* <small>*Mel Karam ceded his day-to-day CEO responsibilities to Laura Flowerdew as deputy CEO for the period 1 April 2020 to 31 December 2020 in order to lead the Company’s response to the CMA redetermination of its PR19 Price review.</small>	1	4
Laura Flowerdew, CFO <small>(and Deputy CEO April-December 2020)</small>	3	4
Richard Price <small>(Strategic Projects and Network Operations Director (non-statutory), now Chief Operating Officer (1 April 2020))</small>	4	4
David Smith <small>(Director (non-statutory) of Asset Management and Production** ** David Smith retired at the end of September 2020)</small>	3	4
Simon Fry, Head of Health and Safety	3	4

The membership of the Committee is appointed by the Board from amongst the Directors and senior management of the Company and must consist of at least three members not all of whom are required to be Board members. The members of the Safety Committee during 2020/21 comprised Jeremy Bending as Chair, Mel Karam (Chief Executive Officer between 1 January 2021 and 31 March 2021), Laura Flowerdew (Chief Financial Officer and from 1 April 2020 to 31 December 2020 Deputy Chief Executive Officer), the Company’s Director (non-statutory) of Asset Management and Production (until retirement in September 2020), the Company’s Chief Operating Officer (formerly Strategic Projects & Network Operations Director (non-statutory), and the Company’s Head of Health & Safety. Laura Flowerdew, the Company’s Chief Financial Officer was appointed as an additional member of the Safety Committee on 27 May 2020.

The Company Secretary acts as secretary to the Committee.

The Safety Committee met four times during 2020/21 on 27 May 2020, 23 July 2020, 30 September 2020, 25 February 2021. At those meetings it considered the following items amongst others:

Meeting on 27 May 2020

- Review of operational impact of COVID-19
- Report on performance of the Company on key Health and Safety performance indicators
- Review of significant Health and Safety incidents
- Focus of Committee for the coming year

Meeting on 23 July 2020

- Review of operational impact of COVID-19
- Review of significant Health and Safety incidents
- Report on performance of the Company on key Health and Safety performance indicator

Meeting on 30 September 2020

- Report on performance against Company Health and Safety key performance indicators
- Review of significant Health and Safety Incidents
- Review of Health and Safety strategy and objectives

Meeting on 25 February 2021

- Report on performance against Company Health and Safety key performance indicators
- Review of significant Health and Safety incidents
- Report on proposed Safe Control of Operations Procedure
- Review of composition of Committee



Directors’ Remuneration report

Annual Statement by Jim McAuliffe,
Chair of the Remuneration Committee

Introduction

I am pleased to present, on behalf of the Board, our Directors’ Remuneration Report in respect of the year ended 31 March 2021 together with our approach to remuneration for Executive Directors for 2021/22.

This report has been prepared under the principles of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 governing the content of remuneration reports and the provision of the Companies Act 2006, as amended by the Companies (Directors’ Remuneration Policy and Directors’ Remuneration Report) regulations 2019.

The Board has reviewed the Company’s compliance with its policy on remuneration-related matters. It is the opinion of the Board that the Company complied with all remuneration-related aspects of this policy during the year as detailed in the table below.

Key matters

The year under review was the first in the current five-year regulatory cycle, and therefore an important year for delivery of the Company’s commitments. The Company implemented a new organisation structure and started to embed new ways of working.

During the year the Company undertook a referral of its Ofwat 2019 Price Review Final Determination result to the CMA and this was led by Mel Karam, CEO whilst Laura Flowerdew, CFO stepped up to act as the Deputy CEO.

We continued to be faced with the challenge of the global COVID-19 pandemic which affected every part of society and the economy both in the United Kingdom and globally. The Company responded vigorously to this challenge throughout the year, prioritising the safety and wellbeing of its employees and customers, focusing particularly on essential services. Inevitably the COVID-19 pandemic impacted on the way in which the Company served its customers, and in some cases resulted in non-essential services being suspended and a small

number of employees being placed on furlough. Since the end of the financial year, the Company has repaid all sums received from Government in relation to staff placed on furlough.

The long-term impact of the pandemic on the Company and the extent to which its effects will continue to impact the Company are being carefully monitored but have resulted in a change in customer behaviours and their financial position, which has notably impacted revenue trends and bad debt levels. The impact will continue to be felt in 2021/22 and beyond.

The Remuneration Committee was therefore particularly aware of the need to ensure that it exercised its judgment and discretion wisely in relation to remuneration levels and awards in 2020/21.

The Committee continues to ensure our remuneration framework supports the strategic direction of the Company. As part of its work over the last 12 months the Committee has reviewed the Directors’ Remuneration Policy. Details of the changes made are set out on page 88.

The Committee has also undertaken a review its Terms of Reference. A small number of changes have been made, and these are reflected in the updated Terms of Reference which are available on the Bristol Water website.

This section summarises the key matters considered by the Committee and decisions made during the year.

- **Salary** – consultation with representatives of the recognised trade union GMB took place and after negotiation an increase of 1.75% for all employees, up to and including Senior Leadership Team level (SLT), was agreed for the year commencing 1 April 2021. A further £500 non-consolidated payment was made to each employee in order to offset the pay freeze in 2020. The Executive Management Team received a 1.5% increase effective from 1 April 2021.
- **Annual employee bonus** – the Committee gave consideration to the objectives and targets of the Company’s annual bonus scheme for 2020/21, in which employees (with the exception of the CEO Mel Karam, the CFO, Laura Flowerdew, and Chief Operating Officer) participated during the year. The committee feel it is appropriate to pay employees their annual bonus for 2020/21 in line with the scheme rules, in recognition of the commitment and hard work in responding to the COVID-19 pandemic, as well as their continued commitment and dedication whilst the Company has continued with its transformation programme, which impacted on staff considerably over the past 12 months.
- **Long Term Incentive Plan (“LTIP”)** – during the year the Committee finalised the Measures and Targets which comprise the 2020 – 2023 LTIP. A summary of the agreed measures is included within the Directors’ remuneration policy on page 90.
- **Annual CEO/CFO Incentive Plan** – the following sets out the annual bonus payments for Executive Directors awarded in respect of 2020/21 pursuant to the Annual Cash Incentive Plan (“ACIP”) 2020/21. A summary of the annual bonus performance measures and the extent to which performance was achieved is set out on pages 96-99.

- **Pension** – the Company continues to operate a company stakeholder (defined contribution) scheme. All employees of the Company are enrolled in this scheme with employer contributions (to a maximum employer contribution of 6%), unless they have opted out.
- **LTIP** – With effect from the beginning of AMP7, a new three-year LTIP was put in place. The first period for measurement covers 1 April 2020 to 31 March 2023.

The 2020-2023 LTIP performance measures are designed to ensure alignment between executive remuneration and customer outcomes. There is no linkage to shareholder dividends. Across service performance, financial efficiency, and wider customer experience, measures relating to customer outcomes will account for over 80% of the maximum total LTIP award.



Directors	Proportion of maximum bonus achieved	Bonus Payment
Mel Karam - CEO	57.8%	£83,389
Laura Flowerdew - CFO	57.0%	£52,725

Directors’ Remuneration report

- **Departing Directors** – There were no departing Directors during the year. Paul Francis, INED, will step down from the Board on 24 June 2021 and due to the completion of the Pennon Acquisition on 3 June 2021 Paul Malan, Indradoot Dhar and Hajime Ichishi resigned from the Board.
- **New appointments** – There were no new appointments during the year. With the completion of the Pennon Acquisition on 3 June 2021 Paul Boote, Neil Cooper and Iain Evans were appointed to the Board as Pennon Group designated NEDs.
- **Implementation of remuneration policy in respect of 2020/21** – There was a change to the remuneration for the CFO which took effect from 1 April 2020 whilst acting as Deputy CEO for a period of nine months, as set out in the table on page 96.
- **Remuneration and Standards of Performance** NEDs' basic salary is not linked to performance targets. However, the annual bonuses awarded and payable by the Company to employees under the 2020/21 ACIP (in relation to the CEO and CFO), and longer term awards under the 2020–2023 LTIP are based on performance against certain targets linked to the standards of performance of the Company. Details of bonus outcomes and performance for 2020/21 can be found on pages 96-99.

Jim McAuliffe
Remuneration Committee Chairman
9 July 2021

Role and composition of the Remuneration Committee
The Committee makes recommendations to the Board on the overall remuneration strategy, and on the remuneration of the Executive Directors and senior executives of the Company, in consultation with the Chairman and/or CEO as appropriate.

The membership of the Committee during the year comprised Jim McAuliffe, Chair, Jeremy Bending, Paul Francis (resigned 24 June 2021), Paul Malan (resigned 3 June 2021), Tim Tutton and Hajime Ichishi (resigned 3 June 2021).

Member’s biographies are given on pages 53-55. The Company Secretary is secretary to the Committee.

The Committee is formally constituted with written terms of reference. A copy of the terms of reference is available on the Company’s website.

During the year the CEO, Head of HR and Company Secretary provided advice and services to the Committee. Deloitte were appointed by the Committee to provide guidance in relation to the review and updating of the Executive Directors’ Remuneration Policy and the review of the Committee’s Terms of Reference. Deloitte were selected after a tender process involving a number of other advisors. The total fees paid to Deloitte in the year for services to the Committee were £4,500 (2020: £nil). Fees charged by Deloitte are on a time and material basis and no other service is provided by Deloitte to Bristol Water.

Deloitte is a member of the Remuneration Consultants’ Group and adheres to its code in relation to remuneration consulting in the UK. The Committee is satisfied that the advice received from Deloitte was independent. No director played a part in any decisions about his or her own remuneration. No Committee member has any personal financial interest or conflict of interest arising from cross-directorships or from day-to-day involvement in running the business.

Executive Directors’ remuneration policy
The key principle underpinning remuneration policy is to offer remuneration packages which are at an appropriate level to attract, motivate and retain Directors and senior managers of the calibre needed to execute the Company’s business strategy. This is important for the delivery of a consistently high-quality service to customers and a sound, sustainable financial performance.

The Committee’s approach on incentives is for any annual bonus to be aligned to the Company’s performance against its strategic and business objectives for the year, and for the performance targets of any LTIP scheme to be based on the longer term strategic and sustainable success of the business in the current regulatory environment.



Members of the Committee	Meetings attended	Max Possible
J McAuliffe, Chair	7	7
P Francis, INED	7	7
J Bending, INED	7	7
T Tutton, INED	7	7
H Ichishi, NED	6	7
P Malan, NED	7	7

Directors' Remuneration report

Changes to the policy

The Committee reviewed the remuneration policy in the year, considering best practice approaches in the water sector and UK listed companies, and the context of AMP7 and the interests of our customers. Taking these factors into account the Committee has approved the following changes:

- Including the finalised terms of the 2020 - 2023 LTIP. Details of award opportunities and performance conditions are set out in the policy.
- Outlining the Committee's discretion over bonus and LTIP outcomes, in accordance with the UK Corporate Governance Code.
- Updating the malus and clawback circumstances for annual bonus awards and awards under the 2020 - 2023 LTIP.



In determining these changes, the Committee has considered the following principles, as outlined in the UK Corporate Governance Code:

- **Clarity** – The Policy is designed to support the financial and strategic objectives of the Company, taking into account UK corporate governance expectations. The Committee is committed to providing open and transparent disclosure of our approach to Directors' pay.
- **Simplicity** – The remuneration structure is simple, comprising three main elements: fixed pay (base salary, pension and benefits), annual bonus to incentivise stretching single year performance, and LTIP awards to incentivise stretching multi-year performance.
- **Risk** – The Committee is mindful of ensuring that incentive arrangements do not encourage excessive risk taking. The Committee follows a robust process when setting performance targets to ensure that targets are sufficiently stretching and balanced.
- **Predictability** – The Policy sets out the maximum opportunity levels for different elements of pay. Page 92 contains charts illustrating the implementation of the Remuneration Policy for Executive Directors under three performance scenarios.
- **Proportionality** – Payment of the annual bonus and awards under the LTIP are subject to the achievement of stretching performance targets. The targets are considered annually and take account of expectations and strategic priorities at the time. The Committee also retains the right to apply discretion where these outcomes do not accurately reflect the performance of the Company.
- **Alignment to culture** – The Remuneration Policy has been developed in order to align the interests of the Directors with the interests of the Company's shareholders and customers.

Summary of Directors' remuneration policy

The table below sets out the Company's remuneration policy for the year ended 31 March 2022

Remuneration element and link to strategy	Approach and link to performance	Maximum opportunity
Base Salary To attract and retain high performing individuals reflecting market value of role and Director's skills, experience and performance.	Salaries are reviewed at the discretion of the Committee. Factors taken into account when determining basic annual salary levels are market data for comparable companies, the individual Executive Director's performance during the year and pay and conditions throughout the Company.	Base salary increases are applied in line with the outcome of any Company-wide annual pay award following a review conducted by the Committee in consultation with trade unions. Increases will normally be in-line with the increases awarded to the rest of the Company workforce.
Annual Bonus To drive and reward performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes.	Annual bonus is based: - 80% on achieving certain business objectives; and - 20% on the achievement of role specific strategic objectives. Business objectives include customer service and operational targets set around measurable outcomes which the Company believes are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the Ofwat customer service measure, C-MeX. Bonus scheme targets are set annually by the Committee. Any final bonus payment based on performance against targets can be adjusted up or down (including to zero) by the Committee at its discretion. Awards may be subject to malus and clawback provisions as described below.	Maximum of: <ul style="list-style-type: none">■ 60% of Base Salary for the CEO■ 50% of Base Salary for the CFO.

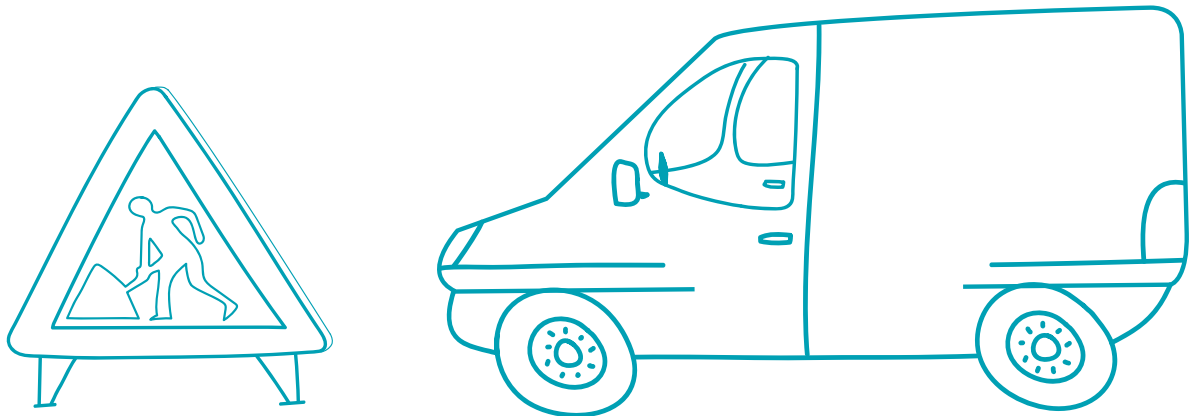
Directors' Remuneration report

<p>LTIP Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives.</p> <p>Align CEO and CFO long-term interests with those of customers, long-term shareholders and other stakeholders.</p>	<p>LTIP awards for the AMP7 period 1 April 2020 to 31 March 2025 are based on multi-year performance periods of at least two years.</p> <p>LTIP awards are based on the Company's performance against long term strategic goals of the Company including customer outcomes. Performance measures with relative weightings, for the 2020 – 2023 LTIP, are:</p> <ul style="list-style-type: none">- 35% ODI performance;- 30% Totex performance;- 20% C-MeX performance;- 15% Health & Safety performance. <p>100% of each element is payable for maximum performance and 0% is payable for performance below threshold. The Committee has set specific pay-out levels between these points.</p> <p>Any LTIP payment based on performance against targets can be adjusted up or down (including to zero) by the Committee at its discretion if it decides that the outcome does not reflect overall business performance over the Performance Period.</p> <p>The Committee may also apply its discretion to reduce the level of any payment (including to zero) if either the Company's credit rating at the time performance measures are assessed is not at an acceptable level, or the Company's approach to cost efficiency during the Performance Period has not been appropriate.</p> <p>50% of any LTIP earned will be paid within 75 days after the end of the performance period, with the remaining 50% paid one year after the end of the performance period.</p> <p>Awards may be subject to malus and clawback as described below.</p> <p>Awards are cash based. There is no share option scheme in operation.</p>	<p>For each award, the maximum opportunity will be set based on the number of years in the performance period.</p> <p>The maximum award for each year of the performance period will be:</p> <ul style="list-style-type: none">■ 70% of Base Salary for the CEO■ 50% of Base Salary for the CFO <p>The targets for the performance conditions are commercially sensitive and are not currently disclosed.</p>
<p>Pension Attract and retain high performing individuals reflecting market value of role and Director's skills, experience and performance.</p>	<p>Pension contributions are made to the Company stakeholder schemes at a specified percentage of basic salary. The Committee may also, at its discretion, approve the payment of cash in lieu of pension up to the maximum contribution level.</p>	<p>Maximum Employer contribution of 6% of base salary.</p>
<p>Benefits Attract and retain high performing individuals reflecting market value of role and Director's skills, experience and performance.</p>	<p>Reflecting market practice and comprising the provision of a Company car (or cash allowance in lieu thereof) and private medical insurance.</p>	<p>N/A</p>

Malus and clawback provisions

The ACIP and the AMP7 LTIP are subject to 'malus' and 'clawback' provisions as set out below:

ACIP	2020 - 2023 LTIP
<p>Prior to the second anniversary of the payment date for the Annual Bonus the Committee may require repayment of all or part of the bonus in the event of:</p> <p>(i) a material misstatement of any Group company's financial results due to fraud, wilful misconduct or negligence and that such misstatement resulted either directly or indirectly in the payment of the bonus being higher than would have been the case had that misstatement not been made; or</p> <p>(ii) a material error in assessing a Performance Condition or in the information or assumptions that formed the basis of a bonus payment; or</p> <p>(iii) an individual ceases to be an employee as a result of their gross misconduct (or commits acts the Committee which could have been considered to be gross misconduct) in the year to which the bonus related; or</p> <p>(iv) the relevant individual commits a criminal offence in the year to which the bonus related and which results in a custodial sentence.</p>	<p>Prior to the vesting of an LTIP award the Committee may determine that the award is reduced (including to zero), or the basis is amended, or that additional conditions are placed on an award in the event of:</p> <p>(i) a material misstatement of any group company's financial results;</p> <p>(ii) a material error in assessing a Performance Condition or in the information or assumptions on which the Award was granted;</p> <p>(iii) a material failure of risk management in any group company;</p> <p>(iv) serious misconduct on the part of the Participant;</p> <p>(v) a breach of fiduciary duty owed by the Participant to the Company or its shareholders;</p> <p>(vi) the identification by Ofwat of a significant failure in operations or risk management;</p> <p>(vii) serious reputational damage to the Company; or</p> <p>(viii) any other event or circumstances which the Committee in its discretion reasonably considers to be similar in their material nature or material effect to those above.</p> <p>Prior to the second anniversary of the end of the LTIP performance period the Committee may require repayment of all or part of the award payment in the event of (i) to (vi) above occurring.</p>

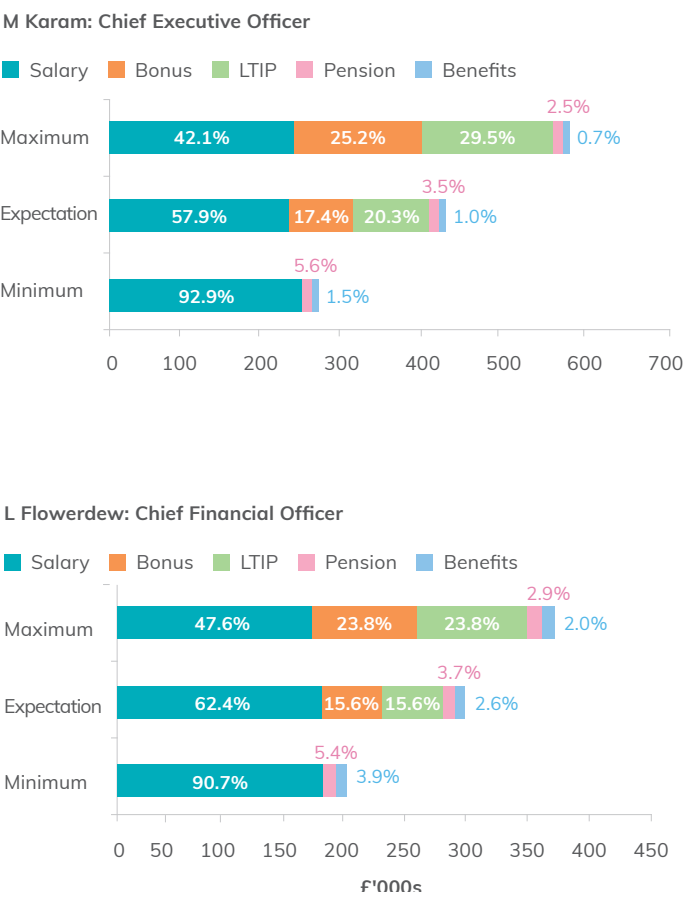


Directors’ Remuneration report

Remuneration in different performance scenarios

In line with the Remuneration Reporting Regulations requirements, the chart below illustrates the CEO’s and CFO’s remuneration packages under three different performance scenarios: Minimum, performance in-line with expectations and Maximum.

- The chart has been based on the following assumptions:
- Minimum = fixed pay (base salary, benefits and pension)
 - In-line with expectations = fixed pay plus 50% of maximum bonus pay-out and 50% pay-out under the LTIP which has accrued in the year.
 - Maximum = fixed pay plus 100% of bonus pay-out and 100% LTIP pay-out. It is the opinion of the Committee that the maximum level is highly unlikely to be reached given the stretching nature of the targets set.
 - Salary levels (on which other elements of the package are calculated) are based on those applying on 1 April 2021. Bonus, LTIP, Pension and Benefits are calculated based on the remuneration policy in place for 2021/22. The value of taxable benefits as disclosed is the single figure for the year ending 31 March 2021. Pension is based on a fixed percentage of base salary linked to employee contribution up to a maximum employer contribution of 6%.



Remuneration policy for the appointment of new Executive Directors

When recruiting an Executive Director, the Committee aims to offer a package in line with the policy outlined above. However, the Committee retains discretion to make a proposal which is outside the standard terms in order to secure the appointment of the right calibre of individual. In determining the appropriate arrangements, the Committee retains the right to benchmark the role against other similar positions in the wider market and may take into account any other relevant factors.

The Committee may also make arrangements to compensate the new Executive Director for “loss” of existing remuneration benefits when leaving a previous employer. In doing so, the Committee takes account of the form in which the previous remuneration was granted, the relevant performance conditions and the length of the time which the performance periods have remaining.

Directors’ appointments

The dates of each of the Directors’ original appointment and expiry of current term are as follows:

Directors	Employment contract date	Expiry of current term*	Next AGM at which the director will stand for re-election	Notice period
Executive Directors				
M Karam	1 April 2017	Indeterminate, 6 months’ notice period	2021	Rolling 6 months
L Flowerdew	1 October 2018	Indeterminate, 6 months’ notice period	2021	Rolling 6 months
NEDs				
Date appointed to the Board				
K Ludeman	26 July 2012	10 September 2021	2021	1 month
T Tutton	1 January 2015	22 June 2021	2021	1 month
H Ichishi	10 May 2012	10 September 2021	N/A**	1 month
P Malan	7 July 2016	30 September 2021	N/A**	1 month
I Dhar	8 May 2018	30 September 2021	N/A**	1 month
P Francis	25 June 2018	25 June 2021	N/A**	1 month
J Bending	25 October 2018	25 October 2021	2021	1 month
J McAuliffe	29 November 2018	29 November 2021	2021	1 month

* Subject to requirement for annual AGM re-election in accordance with the UK Corporate Governance Code
** P Malan, I Dhar and H Ichishi resigned on 3 June 2021 and P Francis stepped down on 24 June 2021

In accordance with the UK Corporate Governance Code, Directors will stand for re-election annually.

The notice periods disclosed above are considered by the Committee to be suitable given the nature of each role and each Director’s function within the business.

Upon loss of office, a Director will normally be entitled to salary and benefits during their notice period subject, however, to the Company’s right to exercise discretion having regard to the individual’s performance during the period of qualifying service and the circumstances contributing to the loss of office.

Where an executive leaves the Company, they would normally forfeit entitlement to any future bonus payment. In certain circumstances, however, the Committee may determine that it is appropriate for an Executive Director to continue to receive an annual bonus for the year of departure. Such payment would normally be pro-rated to reflect the period in employment, based on the extent to which performance against objectives is achieved and paid at the usual time. The Committee may determine that an alternative treatment should apply.

Directors' Remuneration report

Under the 2020 - 2023 LTIP, executives would normally forfeit entitlement to payments under that LTIP unless defined as a 'Good Leaver' which includes: injury, disability, ill-health, or death; redundancy (within the meaning of the Employment Rights Act 1996); retirement as determined by the relevant group company; or any other reason the Committee determines in its absolute discretion. If the executive is a Good Leaver then they would normally continue to be entitled to a payment under the plan based on the proportion of the performance period they have been in employment and the extent to which the performance conditions have been met.

Payments would be made at the normal time. The Committee retains discretion that an alternative treatment should apply in accordance with the plan rules.

Directors' contracts do not provide for other compensation payable on early termination.

Remuneration policy for NEDs

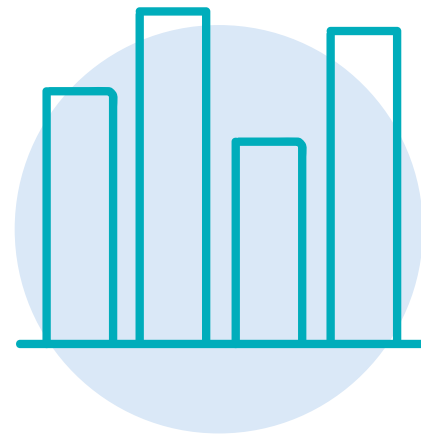
The remuneration of the INEDs, other than the Chairman, is determined by the Board following consultation between the Chairman and the CEO. The Chairman's fee is determined by the Board, following consultation between the Committee and the CEO.

Fees are set taking into account market evidence of fees paid to NEDs in companies of comparable size and on the time required for the proper performance of the role. Additional responsibilities are also taken into account. No Director votes in respect of his own remuneration.

NEDs do not have contracts of employment, do not participate in the Company designated pension

schemes or incentive schemes and do not receive any benefits. NEDs are paid reasonable expenses and the Company may settle any tax arising in relation to such expenses. The terms of appointment do not entitle NEDs to receive compensation in the event of early termination of their appointment.

Fees for any newly appointed NED would be in-line with the above policy. The table below sets out our current policy in relation to fees paid to NED. A 1.5% increase has been applied to the fees payable to NEDs for 2021/22.



Position held by NED	Fee
Chairman of the Board	£103,022
Chair of ARAC	£44,588
Chair of Remuneration Committee	£42,088
Chair of Safety Committee	£42,088
Additional fee for role of Senior INED	£2,030
Independent NED	£37,088

Paul Malan, Indradoot Dhar and Hajime Ichishi are shareholder designated NEDs and receive no remuneration.

Shareholder and employee input in setting remuneration policy

The Committee is aware of the need to set performance targets which inter alia, align the interests of the executive team with those of the Company's shareholders. The Committee has assistance in setting this vital alignment as certain Committee members represent the Company's shareholders. As the shareholders are represented on the Committee, and therefore their views are taken into account in the Committee meetings, the AGM does not review the details of remuneration policy separately.

The Committee does not consider it appropriate to consult with the general workforce on matters of executive remuneration, but it has regard to the levels of remuneration throughout the workforce when considering pay for Executive Directors to achieve an appropriate balance.

Relative importance of spend on pay

The Committee is aware of the importance of pay across the Company in delivering the Company's strategy and of the level of executive remuneration in relation to other cash disbursements. The table below shows the relationship between the Company's financial performance, payments made to shareholders and expenditure on payroll. Data for the EBITDA and PBT are derived from the financial statements on pages 118-155.

The base level dividend in both 2021 and 2020 was paid to Bristol Water Core Holdings Limited and ultimately the funds returned to Bristol Water plc by way of partial repayment of an outstanding intercompany loan.

Application of remuneration policy in 2020/21

This section has been prepared under the principles of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The information has been audited as indicated.

	Year ended 31 March 2021		Year ended 31 March 2020
	£m	Change compared to prior year %	£m
EBITDA	48.6	2.93%	47.2
PBT	8.9	-2.01%	9.1
Payments to shareholders:			
Base level dividends	4.4	46.67%	3.0
Intercompany interest related dividends	1.6	-51.52%	3.3
Payments to employees:			
Wages and salaries excluding Directors	21.2	-0.03%	21.2
Wages and salaries including Directors	22.1	-0.90%	22.3

Directors’ Remuneration report

Single total figure for remuneration of Executive Directors for 2020/21 (audited)

All figures in £'000	M Karam		L Flowerdew	
	2020/21	2019/20	2020/21	2019/20
Salary/fees	240	240	204	152
Bonus	83	107	53	34
Benefit	4	4	8	8
Pension	14	-	11	9
Single Figure Pre-LTIP	341	351	277	203
Change since prior year	(2.8%)	-	36.5%	-
LTIP		-		-
Single Figure	341	351	277	203

The pension figure for M Karam 6% of base salary in lieu of pension contributions which is paid direct to him on a monthly basis.

The salary figure for L Flowerdew includes an amount of £18,750 to cover the period during which Ms Flowerdew acted as Deputy CEO.

Bonus includes amounts earned based on performance during 2020/21, which have been accrued and approved, but not paid as at 31 March 2021 and relates to the period served as a Director. Included within the Financial Statements is an accrual for the 2020 - 2023 LTIP; however, this is not shown above as the LTIP has not vested in the period and awards in relation to the LTIP are dependent on the performance in future years. The LTIP shown is the cash payment received for the AMP6 LTIP in the current year. 50% of the total due was paid in 2020/21 and the remaining 50% will be paid in 2021/22.

Salary (audited)
A salary review conducted during 2019/20 resulted in a pay freeze effective from April 2020 for all employees.

ACIP annual bonus for 2020/21 (audited)
The maximum opportunity under the 2020/21 ACIP for the year ended 31 March 2021 is 60% of base salary for the CEO (2020: 60%) and 50% of base salary for the CFO (2020: 30%).

The table below represents the business performance measures which form 80% of the basis of the bonus. The achievement of the performance measures has been reviewed, with appropriate input from the Remuneration Committee, following the end of the 2020/21 financial year. The maximum 2020/21 bonus opportunity against each of the main performance measures is shown below together with the award actually received.

Category	Category Weighting	Sub category	% of Total	Measure	Target	Performance	Score CEO/CFO	Weighted score CEO/CFO
Health & Safety	10.0%	1.1 Accident Frequency Rate ("AFR") - employees	5%	AFR = (No. of accidents x 100,000) / (No. of hours worked) [employees]. Based on a 12-month rolling period.	1.75	2.3	0%	0.0%/0.0%
		1.2 AFR - contractor	5%	AFR = (No. of accidents x 100,000) / (No. of hours worked) [contractors]. Based on a 12-month rolling period.	2.09	1.77	100%	5.0%/5.0%
Financial	15.0%	2.1 Budgeted Opex	15%	Budgeted Opex of £68.64m subject to approval at Board. Judgement to be taken by Remuneration Committee on any major variations – either overspend or underspend including where there is a decision to invest further than budget envisaged.	£68.64m	£71m	40%	6.0%/6.0%
Outcome Delivery Incentives	30.0%	3.1 Negative Water Quality Contacts	10%	The total number of customer contacts received (by telephone, letter or email) about the appearance, taste or odour of water during the year.	0.83	1.412	55%/52%	5.5%/5.2%
		3.2 Supply Interruptions	10%	The length of time customers are without a continuous water supply, where the duration is greater than three hours	6.30	30	0%	0.0%/0.0%
		3.3 Leakage	10%	Actual reported Leakage figure using the updated actual NHHNU.	36.5	35.52	95%/90%	9.5%/9.0%
Customer Service	15.0%	C-MeX Ranking	15%	C-MeX position.	5th	6th	70%	10.5%/10.5%
PR19	10.0%	5.1 Improvement in Employee Engagement Score	5%	Improvement in Employee Engagement Score (from 65%)	3%	0%	0%	0%/0%
		5.2 Volunteering	5%	Employees who engage in at least two community engagement or volunteering activities related to Our Social Contract (%)	50%	47%	67%	3.3%/3.3%

Directors’ Remuneration report

In addition to these performance measures, the remaining 20% of each Executive Director’s bonus is based on role-specific measures. During the year under review, role-specific objectives for each Executive Director were set as per the table below.

Mel Karam	Laura Flowerdew
Personal factor score out of 10 determined by the Board, having regard to the recommendation of the Committee, including performance on the following key criteria: <ul style="list-style-type: none">Resilience and Environment – Delivery of Resilience Action Plan and Biodiversity Action Plan according to business planning processTransformation – Delivery of key milestones as reported to and signed off by the BoardCMA referral – Effective and efficient conclusion to the project as decided by the Steering GroupReputation – Continue to lead Bristol Water such that its standing in the water industry is further enhanced	Personal factor score out of 10 determined by the CEO including performance on the following key criteria: <ul style="list-style-type: none">Transformation – Lead and deliver key milestones of transformation programme to result in achieving annualised cost reductions to target reaching financial run rate by 31 March 2021CMA referral – Support the CMA re-determination process in capacity as CFO, including providing support to key milestones (site visit, panel hearing etc)Business planning cycle – Continue development of business planning cycle, including continuous improvement in budget and forecasting and alignment of capital planning with Asset Management processesRisk and assurance – Continue to develop the risk management and assurance processes to consolidate risk management across the business

The 2020/21 financial year was an exceptional year for the Company, dealing with the challenges of repositioning the Company for the current regulatory performance period, managing the CMA referral process as well as dealing with the impact of the COVID-19 pandemic on the business.

During the period April 2020 to December 2020 Mel Karam focused on the CMA referral process, leading on the Company submissions to CMA, taking part in CMA panel hearings and the required process interactions. The outcome of the CMA decision published in March 2021 was very positive for the Company, resulting in almost full reinstatement of Company Business Plan revenue, cost and performance criteria. The professionalism demonstrated by the Company under Mel’s leadership throughout the process was also seen by stakeholders as a positive demonstration of the core values of the Company, enhancing our reputation.

Laura Flowerdew acted as Deputy CEO during the period April to December 2020, leading on day-to-day operation of the business whilst Mel focused

on the CMA referral process. Laura also led our Transformation programme throughout the year, leading organisational changes and re-alignment of the business, which have resulted in substantial reductions in underlying operating costs whilst improving operational performance across a number a number of areas including leakage reduction and customer measures of experience. These changes will underpin the delivery of our ambitious plans over the coming years.

Performance against these objectives, together with business performance and bonus scheme entitlement, dictates the amount of bonus awarded. Both CEO and CFO have been assessed as achieving 9 out of 10 on personal objectives.

The resulting bonus awards, after assessment of personal and business performance elements, for the full year were:

- M Karam**
57.8% of maximum bonus entitlement, i.e. 34.7% of year end base salary
- Laura Flowerdew**
57.0% of maximum bonus entitlement, i.e. 28.5% of year end base salary

Mel Karam’s and Laura Flowerdew’s bonus was based on their salary at the end of the year.

The Committee determined that the level of bonus awards above were appropriate, reflecting the levels of performance achieved against the strategic objectives during the year.

2020 - 2023 LTIP (audited)
The maximum opportunity for the CEO under the 2020 - 2023 LTIP was 70% of base salary for each year of participation in the plan, and 50% of base salary per year of participation for the CFO. The table below sets out the performance measures comprising the 2020 - 2023 LTIP.

Benefits (audited)
For Executive Directors, benefits include the provision of a Company car or equivalent cash allowance, and private medical insurance. Depending on the individual employee role, the benefits may include provision of Company car and fuel, car and fuel allowances, health care or child-care vouchers.

Performance Measure	Description	Weighting
Totex	Achievement of defined total Totex targets.	30%
Outcome Delivery Incentives	Achievement in relation to net penalties/rewards for delivery against all Performance Commitments which attract a penalty/reward.	35%
C-MeX	Achievement of Ofwat C-MeX ranking in relation to other regulated water businesses.	20%
Health & Safety	Achievement of long-term Health & Safety targets, as measured against a defined Maturity Matrix.	15%
Total		100%

100% of each element is payable for maximum performance and 0% is payable for performance below threshold. The Committee has set specific pay-out levels between these points. These are designed to maximise ODI performance across the full suite of performance metrics set out in the CMA’s Redetermination and based on the probability outcomes assessed as part of the business planning process. Similarly, Totex incentives align with the cost allowances set out in the Redetermination, whilst C-MeX is aligned with our target to be 5th in the industry for this metric. The health and safety targets are intended to incentivise continuous improvement in performance, as measured by an independent third party.

Pension arrangements (audited)
At 31 March 2021, no Director (2020: no Director) was accruing benefits under the Company’s defined benefit pension scheme.

Mr Karam became a member of the Company designated stakeholder (smart) pension scheme in April 2017 until his decision to leave this scheme in January 2018, the Company made contributions equivalent to 6% of annual base salary to the scheme on Mr Karam’s behalf. Contributions paid to the scheme for the financial year totalled £0 (2020: £nil).

Ms Flowerdew became a member of the Company designated stakeholder (smart) pension scheme on 1 October 2018 and contribution paid to the scheme for the financial year 2020/21 was £12,240 (2020: £9,135), an amount equivalent to 6% of annual base salary.

Interests in shares (audited)
During the year ended 31 March 2021 none of the Directors had any interest in the ordinary or preference shares of the Company.

Directors' Remuneration report

Single total figure for remuneration of NEDs for 2020/21 (audited)

	Salary/fees	
	2020/21 £'000	2019/20 £'000
K Ludeman (Chairman)	102	102
J McAuliffe	42	42
T Tutton	44	44
P Francis	44	44
J Bending	42	42
H Ichishi ²	-	-
P Malan ²	-	-
I Dhar ²	-	-
Single Figure	274	274

² No remuneration has been paid by the Company.
The NEDs do not receive a bonus or any other benefits.

Change in CEO's Remuneration

The following table shows the total remuneration payable by the Company to the appointed CEO. In line with the Large and Medium-sized Companies Regulations 2008, this table shows 10 of the required 10 years of information, with the base year being 2012.

	Luis García						Mick Axtell	Total	Mel Karam			
	2012	2013	2014	2015	2016	2017 ¹	2017 ²	2017	2018	2019	2020	2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Base salary	156	185	189	194	194	173	42	215	230	237	240	240
Annual bonus												
Annual bonus	33	58	54	51	40	35	11	46	83	65	107	83
Annual bonus as proportion of salary	21%	31%	29%	27%	21%	24%	26%	21%	36%	28%	45%	35%
Maximum bonus achievable (as proportion of base salary)	36%	36%	36%	36%	36%	30%	30%	30%	60%	60%	60%	60%
Proportion of maximum bonus achieved	59%	87%	79%	73%	57%	81%	84%	87%	60%	46%	74%	58%
LTIP earned	-	-	48	187	-	-	-	-	-	-	193 ³	-
LTIP as proportion of salary	0%	0%	25%	96%	0%	0%	0%	0%	0%	0%	80%	0%
Benefits	8	9	9	10	11	8	1	9	36	14	4	4
Pension	-	-	6	12	12	10	2	12	10	-	-	14 ⁴
Total remuneration	197	252	306	454	257	226	56	282	359	316	544	341

¹ The remuneration for 2016/17 reflects the fact that Mr Garcia resigned as CEO on 15 December 2016. It includes £27k for payments he was entitled to on leaving under his contract. His bonus was based on the salary excluding these amounts i.e. his salary pro-rated to the proportion of the year that he was in post (£145k).
² The above table apportions Mick Axtell's remuneration to reflect the period that he was interim CEO from 16 December 2016 to 31 March 2017.
³ The figure shown under LTIP earned in 2020 for Mel Karam is the full amount of LTIP award covering the three years of Mr Karam's participation in the AMP6 LTIP and is paid in two equal instalments.
⁴ The figure shown under the Pension benefits for Mel Karam is a cash payment in lieu of pension.

Payments under the AMP5 LTIP were made in two equal instalments; the first instalment was paid on 31 December 2015 and the second instalment was paid on 25 November 2016. The AMP6 LTIP drew to a conclusion on 31 March 2020, with the first instalment paid in June 2020 and the second instalment paid in April 2021.

Directors' Remuneration report

Percentage Change in Remuneration for the CEO Compared to all Employees

Salary – The salary paid to the individual undertaking the role of CEO for 2020/21 increased by 0.0% compared to 2019/20. There was no change to the average salary for other employees for 2020/21 compared to 2019/20.

Annual bonus – The bonus awarded to the CEO under the ACIP for 2020/21 decreased by 22.3% compared with the prior year (2020: increase of 64.8%). The total bonus paid to employees, excluding the CEO, for the period is £1.31m compared to £1.6m in 2019/20 a decrease of 22%. The average bonus per employee was £2,440 (2020: £2,815). The average bonus payment per employee for those in the lowest grade group for 2020/21 was £772 (2020: £784).

Benefits – Benefits, including benefits in kind, payable to the CEO increased by 7.8% for 2020/21 compared with the prior year (2019/20: decreased by 70.7%). Benefits payable to all other eligible staff have remained constant compared with the prior year (2019/20: constant).

Percentage Change in Remuneration for the CEO Compared to all Employees

Salary – The salary paid to the individual undertaking the role of CFO for 2020/21 increased by 21.5% compared to 2019/20. This increase followed an external review of executive remuneration undertaken on behalf of the Remuneration Committee. As noted above, Laura Flowerdew also received an additional payment during the period Ms Flowerdew acted as Deputy CEO. There was no change to the average salary for other employees for 2020/21 compared to 2019/20.

Annual bonus – The bonus awarded to the CFO under the ACIP for 2020/21 increased by 55% compared with the prior year (2019/20: increase of 65%). This percentage increase from 2018/19 is on a normalised basis as Laura Flowerdew joined Bristol Water on 1 October 2018, midway through the year.

Benefits – Benefits, including benefits in kind, payable to the CFO increased by 3.2% for 2020/21 compared with the prior year (2020: increased by 101.5%). Benefits payable to all other eligible staff have remained constant compared with the prior year (2020: constant).

Executive pay gap

This is the second year we have disclosed the CEO pay ratio, in line with reporting requirements which came into force last year. The information shows how the CEO's single total figure for remuneration compared to the equivalent figures for Bristol Water employees occupying the 25th, 50th and 75th percentile. In line with the majority of companies reporting this data, we have chosen Option A under the regulations, which takes account of the full-time equivalent basis for our employees. The CEO pay ratio is likely to be volatile, primarily as a result of the higher proportion of incentive-based pay earned by the CEO, compared to other employees. The figures for 2019/20 were impacted by the maturity of the AMP6 LTIP (the value of long term incentives, which reward performance over a number of years, is disclosed within pay in the year of vesting, which increases the CEO pay in that year). The figures in the table below therefore show the relevant ratios both including and excluding LTIP payments:

Executive Pay Gap

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	15:1 (excluding LTIP) 23.4:1 (including LTIP)	11.3:1 (excluding LTIP) 17.5:1 (including LTIP)	7.6:1 (excluding LTIP) 11.8:1 (including LTIP)
2021	Option A	12.6:1	10.5:1	7.6:1

Executive Base Salary

Executive Director	Salary 2021/22
CEO Mel Karam	£244,060
CFO Laura Flowerdew	£187,775

How the remuneration policy will be applied in 2021/22

The remuneration policy as outlined above will be applied during 2021/22.

Salary

The CEO and CFO received an increase of 1.5% effected from 1 April 2021. The base salaries for Executive Directors for 2021/22 are as previous page.

Pension

With effect from 1 April 2020 Mel Karam has received a cash supplement equal to the level of Employer pension contributions in the Bristol Water Deferred Contribution scheme (6% of Base Salary) and this will continue in 2021/22. Laura Flowerdew will continue to benefit from contributions equivalent to 6% of Base Salary to the Defined Contribution scheme.

Annual bonus

The CEO and CFO will continue to participate in the separate ACIP. The maximum bonus for 2021/22 for the CEO is 60% of Base Salary reflecting the leadership required and criticality of the role. The maximum bonus opportunity for 2021/22 for the CFO is 50% of Base Salary.

The performance measures for the ACIP have been agreed as follows:

Measures	Weighting
Customer and ODI Performance measures	45%
Operating Costs	15%
People-related measures	10%
Health and Safety	10%
Role-specific	20%
Total	100%

The individual performance measures are not disclosed in advance as they are considered to be commercially sensitive. However, these are disclosed at the year end. Their achievement will be reviewed, with appropriate input from the Remuneration Committee at the end of the year.

2020 – 2023 LTIP

As noted earlier in this report, with effect from the start of the AMP7 period, the length of the LTIP has been reduced, and a three-year award has been made, effective 1 April 2020, and covering the period to 31 March 2023

Performance Measure	Weighting
Totex Performance	30%
ODI Performance Measures	35%
C-MeX	20%
Long Term Health & Safety	15%
Total	100%

The maximum payment under the 2020 - 2023 LTIP is 70% of Base Salary for each year of the performance period that the CEO is a participant and 50% of Base Salary for each year the CFO is a participant.

Within 60 days following the end of the Performance Period, the Committee shall determine the extent to which the Performance Condition has been achieved and shall determine the Award Payment (if any). 50% of any Payment due will be made within 75 days of the end of the Performance Period, with the remaining 50% paid 12 months from the end of the Performance Period.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2021.

Section 172 Companies Act 2006 Statement

The Directors of Bristol Water believe that, in the decisions they have taken during the financial year ended 31 March 2021, they have acted in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to its social purpose and stakeholders and the matters set out in sections 172 (a) to (f) of the Companies Act 2006.

This section sets out the Board's approach to decision making, stakeholder engagement, and some of the key decisions made by the Board in the financial year ended 31 March 2021. To give greater insight into this we have provided clear cross referencing to where more detailed information can be found in this Annual Report.

As a regulated water company Ofwat requires the Board of the Company to establish the Company's purpose, strategy and values. In January 2019 we launched our Social Contract which included our social purpose following a wide-ranging consultation with our colleagues, customers and stakeholders, including as part of our Business Plan. We update our Social Contract yearly and report on its performance yearly to the Board.

The Board adopted a new Corporate Governance Statement in July 2019 (the "Bristol Water Corporate Governance Statement"), replacing its previous Corporate Governance Code and embedding the Company's social purpose as a key consideration for the Directors of the Board when discharging their fiduciary duties under sections 171 to 177 of the Companies act 2006. As stated in the Bristol Water Corporate Governance Statement, the Company's social purpose is:

"To have a positive impact on the lives of our customers, our communities, our colleagues and the environment, beyond the delivery of pure and reliable water. By doing this we promote the success of the Company for the benefit of its members as a whole, through its business and operations."

In accordance with the Bristol Water Corporate Governance Statement, the Directors of the Company have discharged their duties as Directors in accordance with the requirements of Section 171 – 177 of the Companies Act 2006 having regard to the Company's social purpose stated above. This commitment is linked strongly to the delivery of our Social Contract Programme, details of which can be found on pages 25-27.

We have highlighted in the table below some examples of the key Board decisions impacted by, and impacting on, our stakeholders in the financial year ended 31 March 2021.

The Board has published a separate 'Trust Beyond Water' statement, which summarises for customers, employees and stakeholders the factors affecting Board decisions and key aspects of performance for different stakeholders, including investors. Bristol Water also publishes interactive graphics summarising performance against KPIs and social purpose targets. In December 2020 Bristol Water published the Social Contract 2020/21: Benefit & Transparency Report, which reports on the societal impact of delivery against our social purpose.



Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2021
Our customers	<p>Continued engagement and consultation with the Company's customer challenge panel, chaired by Peaches Golding, OBE to ensure (i) that customers' views are incorporated into the Company's Business Plan and reflected in our representations to the CMA in respect of our CMA PR19 Redetermination (ii) that our customers support our Business Plan. Various Board members, regularly attend the Bristol Water Challenge Panel meetings or meet with the Chair of the Bristol Water Challenge Panel to discuss key issues and concerns. The Chair of our Bristol Water Challenge Panel has attended two key Board meetings to provide the Bristol Water Challenge Panel feedback on the Board's decision to refer its PR19 Price Determination to the CMA for Redetermination and to be aware of the Board's discussions on these issues.</p> <p>Continued focus on improving our performance on leakage and other key performance commitments to improve customer satisfaction including continued focus on supply interruptions and customer minutes lost targets. For further details see page 18.</p> <p>Offering discounted tariffs, metering, water efficiency support and flexible payment plans to our customer who find it hard to meet their water bills or need some support in paying them. In relation to the COVID-19 pandemic offering a reduction in bills to NHS staff to reflect the additional costs of laundering uniforms.</p> <p>Working through Water UK to focus on our Priority Services Register to help protect and accommodate the needs of vulnerable customers.</p>
Our communities	<p>Adoption of the Company's Social Contract Programme for the financial year ended 31 March 2021, including receiving reports on its implementation. Further details of that Programme and some of our key customer, community and stakeholder engagement activities can be found on pages 25-27.</p> <p>We are a sponsoring member of the Bristol Green Capital partnership recognising and responding to the ecological emergency which the planet faces. We work also with the Bristol One City Plan and the Environment Board to coordinate our work with those who share our concerns.</p> <p>Our Biodiversity score is an industry leading approach and we looked to improve biodiversity at every site on which we impact.</p> <p>With many of our colleagues in the water utility sector we have also signed up to the Water UK Public Interest Commitment, including, amongst others a commitment to developing a strategy to end water poverty and to prevent the equivalent of four billion plastic bottles ending up as waste by 2030.</p> <p>Our employees were encouraged to use their two day "volunteering" to contribute to social contract initiatives and wider community projects, such as supporting local food banks, tree planting, school mentors, food delivery to vulnerable people during the pandemic, etc.</p> <p>We are taking a community leadership role for broader issues of resource efficiency and through a partnership called Resource West, with organisations such as Bristol Waste, Bristol Energy, the University of the West of England, United Utilities, Western Power Distribution and Bristol Pay CIC. We've kicked off a three-year project starting with a six-month trial of circa 16,000 properties. This recognises the need for cultural change in resource consumption, together with combined support for customers who struggle to pay their bills.</p> <p>It was challenging to deliver many of our social contract initiatives during Covid-19. Some of our plans for school visits, community environmental action and public events had to be put on hold whilst social distancing rules apply. We took the opportunity to take our educational activities on-line, with the launch of the Bristol Water Foundation education and careers site, which proved to be very popular.</p>

Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2021
Our employees	<p>Consultation through our Partnership Forum as a consultative forum where employee representatives across the organisation can be consulted by senior management and inform key management decisions in relation to matters affecting our employees, colleagues and Business.</p> <p>Introduction of a new Active Manager Skills programme for senior managers to support them with better coaching, mentoring and performance management skills to support the transformation of the business.</p> <p>Launch of our new Loop E-learning online resources giving all employees access to relevant and topic-specific training on a variety of subjects relevant to their roles in the business.</p> <p>We also focussed on equality, diversity and inclusion, with regular discussion and debate at Board level as to how to better promote equality, diversity and inclusion across our workforce and wider business and to understand what steps the Company is taking to promote equality, diversity and inclusion. This included unconscious bias training rolled out throughout the Company and a series of open mic sessions in March 2021 (including a session with Board members on 8 March 2021) to discuss and debate and understand better peoples' perceptions and understanding of what equality, diversity and inclusion is, and what good looks like. In addition, a new Women's' Network and a new LGBTQ+ Network have been established within the Company and various activities are planned.</p> <p>We used our employee forum approach to discuss equality, diversity and inclusion, to refine our social contract programme, and to discuss with employees how we should celebrate our 175th anniversary. Jim McAuliffe attended many of these events to provide a Board perspective and also to feed back the discussion to inform Board decisions.</p> <p>In November 2020 an annual employee engagement survey was conducted and the results presented to the Board.</p> <p>Increased support for employees during COVID-19, especially providing online resources and support for maintaining good mental health and wellbeing and support for home remote working.</p> <p>Establishment of an Employee hardship fund supported by the Executive Management Team on the onset of the pandemic.</p> <p>The successful gaining of recognition under the Competent Operator Scheme in Production. Recognition under the Competent Operator Scheme is externally assessed and verifies that the Company has robust management systems in place and meets certain agreed principles and requirements to demonstrate and confirm a competent workforce. The scheme was developed in 2017/18 by Energy and Utility Skills in consultation with the UK water industry.</p> <p>Improved accountability and transparency in the organisation through regular "Town Halls" and "ask and answer" forums.</p>

Our stakeholder engagement	Key Board decisions during the financial year ended 31 March 2021
Our regulators	<p>Following the Board's decision in February 2020 to request Ofwat to refer its Final Determination for the PR19 Price Review to the CMA the Board has continued to scrutinise and engage directly with Ofwat and the CMA in a transparent, open and collaborative manner.</p> <p>In addition, the Board receives, reviews and interrogates at Board meetings monthly Key Performance Indicator reports on a set of Company-wide metrics including Health and Safety, Performance Commitments, Water Quality, ODI targets, Finance and Human Resources (people). This includes metrics and performance descriptions of our performance of our commitments to all of our regulators (Environment Agency, Drinking Water Inspectorate, Health & Safety Executive, Consumer Council for Water as well as Ofwat).</p> <p>The Board receives updates on our wider contribution to the development of the water sector and its regulatory framework. The strategic discussions of the Board, such as at the Board Strategy Day, informed our active development and submission of projects for the Ofwat Innovation Fund. It also informed our April 2021 "Regulating for Consensus and Trust" contribution to Ofwat's PR24 Future Ideas Lab, in advance of Ofwat's initial PR24 high level discussion document published in May 2021.</p> <p>The Board also regularly received key reports and metrics in relation to the senior management's engagement with the Company's other regulators including the Drinking Water inspectorate and the Consumer Council for Water.</p>
Our supply chain and other delivery partners	<p>Our contracts with our two successful delivery partners are based on an 'intelligent partnership' framework whereby we and our delivery partners collaborate to promote innovation and efficiency underpinned by a 'pain/gain share' mechanism which is designed to reward our NMSC delivery partners for reducing costs and increasing efficiency in the delivery of our NMSC programme, whilst reducing costs for the Company. This includes collaboration on Health and Safety matters such as the Company's "Dig no Damage" campaign aimed at reducing the incidence of potentially dangerous service strikes (e.g., gas, electricity and telecoms) when excavating sites.</p> <p>The Company and Board regularly reviewed the performance of the Intelligent Partners under the NMSC Contracts as well as the performance of other key supply chain and capital projects delivery partners.</p> <p>The Company also reviews its capital projects budget and expenditure and approvals through tis Projects Governance Committee and Investment Approval Group.</p>
Investors	<p>In the financial year ended 31 March 2021 the Company complied with its stated dividend policy adopted on 22 August 2019. Details of our shareholder and ownership structure and of our dividend policy are set out on pages 56-62 and 14-15 respectively.</p>

“The Board has published a separate ‘Trust Beyond Water’ statement, which summarises for customers, employees and stakeholders the factors affecting Board decisions and key aspects of performance for different stakeholders, including investors.”

Directors’ report

Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 11-15.

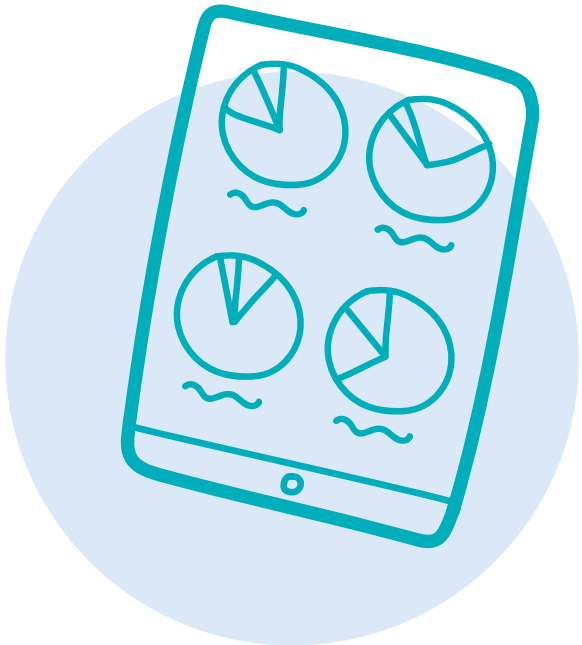
The total dividend paid during the year ended 31 March 2021 was 100p (2020: 105p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2020/21 (2020: £nil). The Company’s policy for dividends to shareholders is contained in the Strategic Report on pages 14-15.

Capital structure

Details of the issued share capital are shown in notes 21 and 25. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between indirect holders of the Company’s shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company’s share capital and all issued shares are fully paid. The Articles of Association themselves may be amended by special resolution of the shareholders.

Under its Articles of Association and the Companies Acts, the Company has in issue 5,998,025 ordinary shares as disclosed in note 25. All the ordinary shares are owned by Bristol Water Core Holdings Limited. In addition, the Company has in issue 12,500,000 8.75% irredeemable cumulative preference shares of £1 each, details of which are disclosed in notes 21 and 25.

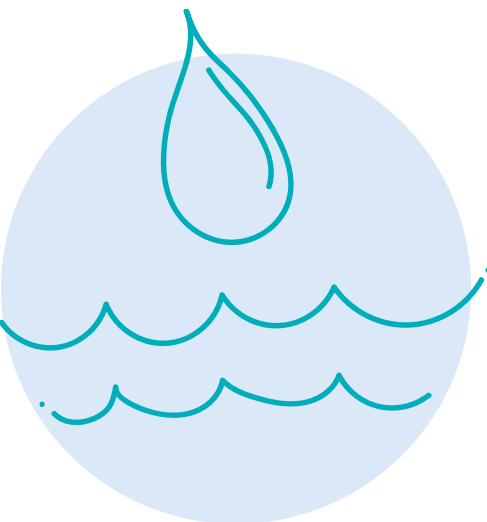


Directors' report

Outlook

The main drivers of 2021/22 profitability in addition to the key risk uncertainties highlighted above are expected to be:

- The reduction in revenues from 2019/20 consistent with the Ofwat PR19 Final Determination of c7%, was mitigated by 2.4% performance adjustments for our 2019/20 performance (in particular leakage) as this was better than assumed at PR19.
- Reductions in operating expenditure as a result of our transformation programme and reductions in capital expenditure reflecting our PR19 plan.
- Inflation or deflation – operating costs, capital expenditure and the Company’s index linked debt are subject to inflation based on CPIH or RPI at various points in the year. Potential adverse impacts of high inflation or deflation are mitigated by linking of the majority of revenues through the previous year’s November CPIH.
- Energy costs – energy costs are significant for the Company, and consumption will fluctuate with demand and depending on which water resources are being utilised. Our main reservoirs were full following the winter, which allows for lower energy using sources to be utilised. We enter into appropriate forward contracts to fix future energy prices. At our biggest using energy site, we now have on-site energy generation capability which reduces energy costs.
- Socio-economic conditions – significant changes in the socio-economic conditions of customers may impact recovery of billed amounts. Ofwat have put specific mechanisms in place to reduce risk to the business retail market as a result of COVID-19.
- Weather – severe weather patterns can affect the profitability in various different ways. Measured income can be affected by changes in volume consumed, chemical and power costs can be affected by raw water quality and the availability of different sources, and network maintenance costs can be affected by mains burst activity. In severe weather, outcome incentive performance penalties are more likely to be incurred.



Going Concern

- In assessing the going concern basis, the Directors have considered the cash flow and financial ratios projections of the Company for the next 12 months.
- The key risks to the Company are set out in the Risk Review in the Strategic Report (see pages 34-42). In addition, we have modelled the long-term impacts of the risk review, together with potential mitigating actions that management can take, in the Long Term Viability Statement on pages 43-47. As set out in the Long Term Viability Statement, we rely on a combination of debt and equity financing, to fund our business. We also rely on having an investment grade credit rating to raise financing at an efficient cost as well as to comply with the terms of our operating licence. As such, in order to assess our ability to continue as a going concern we look at both our cash and available facilities, but also our credit rating and ability to raise new financing.
- Our credit rating is undertaken by Moody’s, who assess our credit worthiness using a grid of relevant considerations. This grid includes two primary ratios: Adjusted Interest Cover Ratio and Gearing. For comparative purposes, and to ensure an appropriately rounded position, we also model metrics under the Standard & Poor’s methodology, which focus on the ratio of funds from operations to net debt (FFO to Net Debt). To ensure compliance with our existing securitisation framework we also monitor covenants under these requirements, which most significantly reflect an alternative calculation of interest cover and regulated asset ratio (the ratio of net debt to regulatory capital value).
- The Company is well placed to respond to near term challenges, with a strong liquidity position constituted of £4.8m unrestricted cash together with uncommitted borrowing facilities of £44m as at 31 March 2021. The Company’s funding position is summarised in the table below.

	Actual 31 March 2021 £m
Balance outstanding on Artesian loans - fixed rate	57.5
Balance outstanding on Artesian loans - index linked	145.4
Balance outstanding on other senior loan facilities	126.6
Balance outstanding on index linked bond	51.6
Gross Debt	381.1
Undrawn facilities	44.0
Cash	10.9
Total facility	436.0

Directors' report

■ The majority of the Company's debt is long dated, with the earliest repayment of debt reflecting £9.0m of drawn debt repayable on 2 December 2021; undrawn facilities amount to £44.0m, with a further £4.8m of unrestricted cash available to the business. The facilities available to the business are in excess of that required based on the Company's cash flows as reflected in forecasts. In addition, consideration has been given to a range of reasonably probable downside scenarios (including those described in the Risk Review) and in particular the short term impact of COVID-19 on cash flows, as well as the risk of not achieving our planned cost reductions in order to improve our performance outcomes and cost efficiency. Further, mitigating actions have been considered such as cancellation of dividends and short-term cash flow management, should a combination

of the scenarios occur. In addition, based on the relevant financial metrics for these forecasts and scenarios and taking account of the mitigating actions available to the Company, the credit rating of the business is considered to be maintainable at investment grade and therefore sufficient to support its licence and existing financing requirements over the period of assessment.

■ As a result, the Directors report that, after making enquiries, they have concluded that the Company has adequate resources or the reasonable expectation of raising further resources as required to continue in operation for the 12 months following signing of the report. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Financial Risk Management

Details of financial risks faced by the Company and the related mitigating factors are included in note 27 to the financial statements.

Directors and their interests

The Directors who served during the year or were appointed before this report were:

- K Ludeman, Chairman
- M Karam, CEO
- L Flowerdew, CFO
- T Tutton, Senior INED
- J Bending INED
- P Francis, INED**
- J McAuliffe, INED
- I Dhar, NED*
- H Ichishi, NED*
- P Malan, NED*

*Resigned 3 June 2021 and replaced on that date by Paul Boote (NED), Neil Cooper (NED) and Iain Evans (NED)
**Resigned 24 June 2021

In accordance with the UK Corporate Governance Code, all Directors offered themselves for re-election at the Annual General Meeting held on 30 September 2020 and were duly re-elected.

Helen Hancock is the Company Secretary.

Service contracts

All current Executive Directors have service contracts, notice periods are detailed in the Remuneration Committee report on page 93. Each of the NEDs is provided with a Letter of Appointment which sets out the terms of their appointment.

Other interests

At no time during the year has any Director had a material interest in any contract of significance with the Company.

The interests in shares and other contracts of Mr Ichishi with other companies within the Itochu group are not disclosed within this report.

The interests in shares and other contracts of Mr Malan and Mr Dhar with other companies within the iCON group are not disclosed within this report.

Ultimate Parent Company and Controlling Party

The details of ultimate parent company and controlling party, and the smallest and largest group in which this Company is consolidated, are provided in note 31 to the financial statements.



Directors' report

Research and Development

The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £nil (2019/20: £29,000).

Financial Instruments

The details of the financial instruments are provided in note 26 to the financial statements.

Instrument of Appointment and Regulatory Accounts

In accordance with its Instrument of Appointment made under the Water Industry Act 1991 as amended, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition K of that Instrument, which relates to the control of the assets of the Appointed Business. Copies of the Regulatory Accounts required under the Instrument of Appointment are available from the Company Secretary.

Directors' Qualifying Third Party Indemnity Provisions

During the year, and to the date of approval of the financial statements, the Company had in force a qualifying third party indemnity provision in favour of all Directors of the Company against any liability which may arise in respect of their current or past duties as Director of the Company or its holding companies, subject to the conditions set out in the Companies Act 2006.

Auditors and Disclosure of Information to Auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Employees

Information on employment policies and practices is contained within the 'Staff Confidence' part of the Strategic Report on pages 31-33.

Political donations

Bristol Water's policy is not to make any donations for political purposes in the UK or to donate to EU political parties. Accordingly, for the financial year under review, no political donations were made.

Environmental Matters

The quality of our water sources, particularly in the Mendip lakes, can be impacted due to nutrients and sediment that can enter the watercourses from land and activities in the catchment area of the source. We have been working with local landholders and farmers to identify where such issues can be addressed and through our partnership programmes with key stakeholders, such as the Mendip Lakes Partnership, we are able to work together on these issues.

The partners involved include Natural England, the Environment Agency, Wessex Water, Avon Wildlife Trust, Farming & Wildlife Advisory Group and Catchment Sensitive Farming. We are continuing to hold a range of successful farm engagement and training sessions with landholders in the key catchment areas and we have supported farmers to invest in water protection measures on their landholdings.

In 2020/21 our measurement of the benefits of this activity contributed to a specific Outcome Delivery Incentive, raw water quality of sources. This indicates that our catchment management activities removed 155kg of P nutrients that would have otherwise entered watercourses, beating the target of 109kg.

We monitor our protection and enhancement of the natural environment through an innovative approach that we have called the Biodiversity Index. This quantifies an environmental value of our sites and creates a "direction of travel" for the way we manage our operational activities and property, helping us to protect and enhance the natural environment by using the Index to quantify the impact of our actions on the broader environment. We met our target for the Biodiversity Index, with the details set out in our published Annual Performance Report to Ofwat.

We monitor all of our discharges which have been consented by the Environment Agency with a view to full compliance, where there are failures these are reviewed, and appropriate remedial measures are implemented. Whilst no failures are tolerated, performance in 2020 at 98% remained at the same high level achieved in 2019. We have a good working relationship with the Environment Agency. We had no required schemes due for delivery in

the year, reflecting the relatively positive impact we already have. Our pollution events are usually limited to the impact of water and sediment from mains bursts running into watercourses, there were seven of these in 2020 (up from three in 2019), with all except one self-reported. Our work to prevent invasive species also continues, and we have been helping to breed and protect the endangered native white-clawed crayfish.

Greenhouse Gas Emissions

We used just over 78 million kilowatt hours of electrical energy to treat and distribute water. This accounts for 91% of our total carbon footprint. We can play our part in reducing the carbon emissions associated with energy use by improved pumping efficiency; reducing leakage and helping our customers use water more efficiently. This, together with improved energy efficiency of our buildings and vehicle fleet, and development of renewable energy sources, enables us to manage those aspects of our carbon footprint that we can control.

We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint. Our carbon footprint has reduced over the year from 23,291 tonnes of CO2 equivalent to 20,791 tonnes of CO2 equivalent.

We use the Standard Water UK calculation methodology to calculate our carbon emissions shown as a normalised kg CO2 per MI of water into supply. In 2020/21, this decreased to 198kgCO2e/MI from 233kgCO2e/MI in 2019/20. This measure has reduced significantly since 2010 thanks to our use of renewable energy, our energy efficiency programmes and a national reduction in the carbon emissions associated with energy use.



Directors’ report

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed by Listing Rule 9.8.4R can be found on the following pages:

A statement of the amount of interest capitalised in accordance with IAS23 can be found in note 8. In line with current UK tax legislation, the amount is fully deductible against the Company’s corporation tax liability. Tax relief is £68,226 (2019/20: £62,324).

Details of long-term incentive schemes can be found on page 103.

Details of significant contracts between the Company and Directors can be found on page 113. During the year, there were no contracts for the provision of services to the Company by a controlling shareholder.

There are no other disclosures to be made under Listing Rule 9.8.4.

The statement of the Directors in respect of the Annual Report, and the statement of Directors’ responsibilities are contained within the Directors’ Report on page 117.

As required by the UK Corporate Governance Code, as set out in the Corporate Governance Report on pages 63-67, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s position, performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- the Annual Report is drafted by appropriate senior management with overall co-ordination by the CFO;
- communications to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Report are undertaken by the Executive Directors and other senior management;
- the final draft is reviewed by the ARAC prior to consideration by the Board; and
- reviewed individually, and collectively, by Board members prior to publication.

Statement of directors’ responsibilities

The Directors are responsible for preparing the Annual Report including the Remuneration Committee Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (reflecting United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration Committee Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ

from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 53-55, confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in conformity with Financial Reporting Standard 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Approved by order of the Board, and signed on its behalf by:

Helen Hancock
Company Secretary
9 July 2021

INCOME STATEMENT

for the year ended 31 March 2021

	Note	2021 £m	2020 £m
Revenue	3,2,5	119.5	125.5
Operating costs excluding impairment losses on trade receivables	6	(91.4)	(90.7)
Impairment losses on trade receivables	6	(4.9)	(4.8)
Operating costs before exceptional items		(96.3)	(95.5)
Exceptional operating costs	6	(2.2)	(7.3)
Total net operating costs	6	(98.5)	(102.8)
Other income and costs	7	-	-
Operating profit		21.0	22.7
Other net interest payable and similar charges	8	(11.0)	(12.4)
Dividends on 8.75% irredeemable cumulative preference shares	8	(1.1)	(1.1)
Net interest payable and similar charges	8	(12.1)	(13.5)
Profit before tax		8.9	9.2
Taxation on profit on ordinary activities	9	(2.1)	(8.7)
Profit for the financial year		6.8	0.5
Earnings per ordinary share	10	113.3p	8.3p

All activities above relate to the continuing activities of the Company.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2021

	Note	2021 £m	2020 £m
Profit for the financial year		6.8	0.5
Other comprehensive income / (expense):			
Items that will not be reclassified to profit and loss			
Actuarial (loss) / gain on retirement benefit surplus	15	(0.3)	0.5
Remeasurements of defined benefit pension scheme	9	0.3	(0.1)
Other comprehensive income for the year, net of tax		-	0.4
Total comprehensive income for the year		6.8	0.9

STATEMENT OF FINANCIAL POSITION

at 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	11	682.9	671.8
Intangible assets	12	13.3	14.0
Other investments - Loans to a group undertaking	13	61.1	65.5
Deferred income tax assets	14	5.9	5.9
Retirement benefit surplus	15	9.1	9.7
		772.3	766.9
Current assets			
Inventory	17	1.7	1.7
Trade and other receivables	18	29.6	32.0
Cash and cash equivalents	19	10.9	10.1
		42.2	43.8
Total assets		814.5	810.7
Non-current liabilities			
Lease liabilities	20	(1.5)	(1.9)
Deferred income tax liabilities	14	(72.3)	(71.6)
Borrowings and derivatives	21,26	(379.2)	(379.0)
8.75% irredeemable cumulative preference shares	21,26,25	(12.5)	(12.5)
Deferred income	22	(82.9)	(81.8)
Government grants		(0.3)	(0.3)
		(548.7)	(547.1)
Current liabilities			
Lease liabilities	20	(0.4)	(0.9)
Current portion of borrowings and derivatives	21,26	(9.0)	-
Current portion of deferred income	22	(1.8)	(1.8)
Trade and other payables	23	(35.3)	(36.5)
Provisions for liabilities	24	(0.5)	(6.4)
		(47.0)	(45.6)
Total liabilities		(595.7)	(592.7)
Net assets		218.8	218.0
Equity			
Called-up share capital	25	6.0	6.0
Share premium account		4.4	4.4
Other reserves		5.8	5.8
Retained earnings		202.6	201.8
Total Equity		218.8	218.0

The financial statements of Bristol Water plc, registered number 02662226 on pages 118 to 155, were approved by the Board of Directors on 9 July 2021 and signed on its behalf by:

Mel Karam, Chief Executive Officer and **Laura Flowerdew**, Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended
31 March 2021

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 April 2019	6.0	4.4	5.8	207.2	223.4
Profit for the year	-	-	-	0.5	0.5
Other comprehensive income for the year:					
Actuarial gain recognised in respect of retirement benefit pension obligations	-	-	-	0.5	0.5
Remeasurement of defined benefit scheme	-	-	-	(0.1)	(0.1)
Total comprehensive income for the year	-	-	-	0.9	0.9
Ordinary dividends	-	-	-	(6.3)	(6.3)
Balance as at 31 March 2020	6.0	4.4	5.8	201.8	218.0
Balance as at 1 April 2020	6.0	4.4	5.8	201.8	218.0
Profit for the year	-	-	-	6.8	6.8
Other comprehensive income for the year:					
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	(0.3)	(0.3)
Remeasurement of defined benefit pension scheme	-	-	-	0.3	0.3
Total comprehensive income for the year	-	-	-	6.8	6.8
Ordinary dividends	-	-	-	(6.0)	(6.0)
Balance as at 31 March 2021	6.0	4.4	5.8	202.6	218.8

The Board has not proposed a final dividend in respect of the financial year 2020/21 (2020: £nil).

During the year the Board approved dividends totalling £6.0m, representing £1.6m in relation to the interest on the intercompany loan with BWHUK and £4.4m which was ultimately used to part repay the outstanding loan due to the Company from BWHUK.

CASH FLOW STATEMENT

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit before taxation		8.9	9.2
Adjustments for:			
Deferred income amortisation	22	(1.8)	(1.8)
Depreciation	6	24.0	22.3
Amortisation of intangibles	6	3.7	2.9
Impairment of fixed assets	6	-	0.1
Difference between pension charges and contributions paid	15	1.0	0.6
Profit on disposal of assets	6	(0.1)	(0.7)
Interest income	8	(3.9)	(4.1)
Interest expense	8	16.4	18.0
Pension interest income	8	(0.4)	(0.4)
Increase in inventory		-	(0.1)
Decrease / (increase) in trade and other receivables		2.3	(2.8)
(Decrease) / increase in trade and other creditors and provisions		(3.0)	5.7
Cash generated from operations		47.1	48.9
Interest paid		(12.5)	(12.3)
Corporation taxes paid		(1.4)	(2.5)
Contributions received	22	2.9	3.8
Net cash inflows from operating activities		36.1	37.9
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(41.9)	(71.6)
Proceeds from sale of fixed assets		0.3	0.7
Interest received	8	3.9	4.1
Repayment of intercompany loan receivable	13	4.4	3.0
Net cash used in investing activities		(33.3)	(63.8)
Cash flows from financing activities			
Proceeds from loans and borrowings	21	6.0	27.0
Payment of finance lease liabilities		(0.9)	(0.7)
Preference dividends paid	8	(1.1)	(1.1)
Equity dividends paid		(6.0)	(6.3)
Net cash (used in) / generated from financing activities		(2.0)	18.9
Net increase / (decrease) in cash and cash equivalents		0.8	(7.0)
Cash and cash equivalents, beginning of year	19	10.1	17.1
Cash and cash equivalents, end of year	19	10.9	10.1

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bristol Water plc (“the Company”) is a water supply company holding an instrument of appointment as set out by the Water Industry Act 1991. The Company is the licensed monopoly provider of water services in the Bristol area, and as such is regulated by the Water Services Regulation Authority - Ofwat.

Bristol Water plc is a public company, limited by shares, with irredeemable preference shares and debenture stock listed on the London Stock Exchange.

The Company is incorporated and domiciled in England, United Kingdom. The address of its registered office is Bridgwater Road, Bristol, BS13 7AT, England.

2. BASIS OF PREPARATION

The financial statements of the Company are prepared on a historical cost basis, except for financial assets and financial liabilities (including derivative instruments) measured at fair value and in accordance with Financial Reporting Standard 101, ‘Reduced Disclosure Framework - Disclosure exemptions from EU-adopted IFRS for qualifying entities’ (“FRS 101”) and with the provisions of the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Requirements of IFRS 13 ‘Fair value measurement’ (disclosure of fair value techniques and inputs)
- Paragraph 38 of IAS 1, ‘Presentation of financial statements’ comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 ‘Property, Plant and Equipment’; and
 - (iii) paragraph 118(e) of IAS 38 ‘Intangible Assets’.
- The following paragraphs of IAS 1, ‘Presentation of financial statements’:
 - 10(f) (a statement of financial position as

- at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements);
- 16 (statement of compliance with all IFRS);
- 38B-D (additional comparative information); and
- 134-136 (capital management disclosures).
- Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not effective).
- Paragraph 17 of IAS 24, ‘Related party disclosures’ (key management compensation).
- The requirements in IAS 24, ‘Related party disclosures’ to disclose related party transactions entered into between two or more members of a group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing these financial statements. These policies have been consistently applied to all years presented, unless otherwise stated:

3.1 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Company’s forecasts and projections show that the Company will be able to operate within the level of its current cash reserves and borrowing facilities. After making enquiries, the Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. See pages 111-112 for further detail. Further information on the Company’s borrowings is given in note 3.14 and note 21.

3.2 Revenue

Revenue comprises charges to direct customers and retailers for water and other services, exclusive of VAT. Revenue is recognised as the performance obligation is satisfied. In accordance with IFRS 15 revenue from customers is only recognised when it is probable that the Company will collect the consideration to which it is entitled.

Revenue from metered water supply is based on water consumption and is recognised upon delivery of water. It includes an estimate of the water consumption for customers of both the Company and retailers whose meters were not read at the

reporting date. For customers the estimate covers the period between the last meter reading and the reporting date, and for retailers the last month of the period. The estimate represents a contract asset under IFRS 15 and is recorded within accrued income.

Revenue from unmetered water supply is based on either the rateable value of the property or on an assessed volume of water supplied. Cash received from customers is held in trade and other payables and recognised to the income statement over the period to which the bill relates.

Revenue from developers in respect of the network and other assets is recognised over the period of time water services are expected to be provided through this connection. Unrecognised revenue is held in deferred income as a contract liability.

Revenue from other services is recognised upon completion of the related services.

3.3 Research and development

Research and development expenditure is charged to the Income Statement as incurred. Development expenditure is capitalised only when it meets the recognition criteria of IAS38

3.4 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are items that are material either because of their size or their nature and are presented separately within the line items to which they best relate.

3.5 Distributions to shareholders

Dividends and other distributions to shareholders are reflected in financial statements when approved by shareholders in a general meeting, except for interim dividends which are included in financial statements when paid by the Company. Accordingly, proposed dividends are not included as a liability in the financial statements.

3.6 Property, plant and equipment and depreciation

Tangible assets are stated at historic purchase cost less accumulated depreciation and comprise infrastructure assets and other assets. The cost of assets includes their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs and salaries which are capitalised. Repairs and maintenance of assets is capital expenditure when it is probable future economic benefits will flow to the Company and the cost of the item can be measured reliably.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs are capitalised using a weighted average interest rate of applicable borrowings.

Depreciation

Depreciation is charged, where appropriate, on a straight-line basis on the original cost of assets over their expected economic lives. Freehold land is not depreciated. Depreciation of long-life assets commences when the assets are brought into use.

Assets are depreciated after commissioning over the following estimated economic lives:

Infrastructure assets	33 to 213 years
Operational properties and structures	3 to 100 years
Plant and equipment comprising:	
Treatment, pumping and general plant	2 to 30 years
Computer hardware, communications, meters and telemetry equipment	4 to 15 years
Vehicles and mobile plant	4 to 15 years
Assets under construction are not depreciated	

The assets’ remaining useful lives are reviewed periodically and adjusted prospectively, where appropriate.

Impairment

The values of fixed assets are reviewed annually to determine whether their carrying amounts exceed their fair values in use. Where such an excess is believed to exist, it is treated as an impairment loss and charged to the Income Statement.

Disposal

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement when the asset is derecognised.

3.7 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year which the expenditure is incurred.

Assets are depreciated after commissioning over the following estimated economic lives:

Computer software	3 to 10 years
Assets under construction are not amortised	

Intangible assets with finite lives are amortised over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Disposal

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement when the asset is derecognised.

3.8 Other Investments

Loans made to UK holding companies within the Bristol Water Group Limited group of companies are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost. In accordance with IFRS 9, other investments are considered to be a low credit risk where they have a low risk of default and the issuing company has a strong capacity to meet its contractual cash flow obligations in the near term.

3.9 Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) for the year, and any adjustment to tax payable or receivable in respect of the prior years, using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Advance Corporation Tax (“ACT”) in respect of dividends in previous years is written off to the Income Statement unless it can be recovered against mainstream corporation tax in the financial year

or with reasonable assurance in the future. Credit is taken for ACT previously written off when it is recovered against mainstream corporation tax liabilities.

Deferred tax is recognised in respect of all temporary timing differences arising between the carrying amount of assets for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax assets and liabilities are offset only if a legal enforcement right exists to that effect, the deferred taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Tax is charged or credited to the other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise tax is recognised in the Income Statement.

3.10 Pension costs

The Company operates both defined benefit and defined contribution pension arrangements. Defined benefit pension arrangements are provided through the Company’s membership of the Water Companies’ Pension Scheme (“WCPS”) via a separate section. Employees in the section stopped accruing additional defined benefit pensions on 31 March 2016.

Defined benefit scheme

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Scheme running costs are charged to operating profit.

Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. Past service costs arising on a plan settlement or a curtailment are included immediately within operating costs.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are immediately recognised in the period in which they occur in other comprehensive income.

Defined contribution schemes

Costs of defined contribution pension schemes are charged to the Income Statement in the period in which they fall due. Administration costs of defined contribution schemes are borne by the Company.

3.11 Inventory

Inventory is valued at the lower of cost and net realisable value. Inventory valuation is determined using the weighted average cost method. Following established practice in the water industry, no value is included in the financial statements for water held in store.

3.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less loss allowance. See note 4 for a description of the Company’s impairment policies.

3.13 Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

3.14 Financial instruments

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost.

The net costs of issue of loans (being expenses incurred less premiums received) where material are amortised over the lives of the respective loans and disclosed within net borrowings. Immaterial amounts are written off as incurred. Index-linked loans are valued at cost plus accrued indexation.

3.15 Leased assets

The Company leases equipment and vehicles. Contracts may contain both leases and non-lease components. The Company allocates the consideration in the contract to the lease and non-

lease components based on their relative stand-alone process.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- The payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonable certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, as is generally the case for the Company, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the asset’s useful life.

3.15 Leases assets (continued)

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3.16 Grants

Government grants received are shown on the Statement of Financial Position and the related amortisation is recognised in the Income Statement over the useful life of the relevant assets.

Grants in respect of expenditure charged to the Income Statement are recognised when the related rechargeable expenditure is incurred.

3.17 Trade and other payables

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.18 Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted if the effect of the time value of money is considered material.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Revenue Recognition

An estimate of water consumption by metered customers since the date of the last bill and the corresponding income that remains not billed

(accrued income) is required to be made each year. The accrual is based on metered volumes, consumption already billed and tariffs. The accrued income is £14.9m (2020 £14.2m), of which £13.7m (2020 £12.5m) is included in note 18 prepayments and accrued income and £1.2m (2020 £1.7m) relates to Water 2 Business Limited, a related party company and is included within amounts owed by group undertakings in note 18.

In accordance with IFRS 15 revenue from customers is only recognised when it is probable that the Company will collect the consideration to which it is entitled. Management considers the payment history of customers and does not recognise revenue where no payment has been received for more than four years. Once consideration is received the revenue is recognised.

Contributions received from developers in respect of network and other assets are recognised as revenue as the performance obligation is satisfied. The performance obligation is deemed to be the authorised connection to water services which will be satisfied over the period of time water services are expected to be provided through this connection. We have estimated the average connection will be in place for a period of 60 years which is based on the useful economic life of domestic properties and building industry expectations.

Classification of costs between operating expenditure and capital expenditure

Expenditure on assets can be for repairs, maintenance or enhancement, and judgement is required to determine whether it should be classified as operating expenditure or capital expenditure.

The Company incurs a high level of infrastructure maintenance expenditure. Each infrastructure scheme is reviewed to determine the accounting treatment as either capital or operating expenditure, depending on the nature of the scheme. Consideration is given to a range of factors, including the degree of upgrade which results from the maintenance project, the frequency of the maintenance relative to the overall life of the underlying asset, whether the maintenance is likely to result in increased useful life or enhanced working standard or capacity of the asset, and if the maintenance is expected to result in a separate component of infrastructure asset. The results are assessed against the requirements of accounting standards.

Payroll costs are allocated to categories that reflect the nature of activity being undertaken and maybe classified as operating or capital in nature. A judgement is applied, based on the activity for each cost centre, of an appropriate proportion to

capitalise. This is a formal procedure under which figures are reviewed and assessed to ensure they meet the required criteria for capitalisation (directly attributable to an asset, probable future economic benefit and can be measured reliably). See note 8 for capitalised payroll costs.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the property, plant and equipment and note 3.6 for the useful economic lives for each class of assets.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The present value of the obligation depends on a number of factors, including; life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors and receives advice from the pension scheme administrators in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. In June 2018 the scheme purchased a bulk annuity policy to insure the benefits for members in the Section. Following this the method for valuing the liabilities of the pension scheme has remained the same however the scheme assets, in the form of the insurance policy, now match the value of the liabilities.

The Company has included within valuation of the scheme liabilities an estimate for removing the inequalities in members' benefits as a result of different Guaranteed Minimum Pensions for men and women ("GMP Equalisation").

In March 2016 the scheme closed to future benefit accrual and as a result any surplus on the scheme would only be available to the Company as refund rather than as a reduction in future contributions. Under current UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer, which is shown as a restriction to the value of the net pension scheme asset.

See note 15 for the disclosures of the defined benefit pension scheme.

Impairment of trade receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the ageing profile of the receivables, historical experience and any relevant current and forward looking macroeconomic factors, as well as the credit rating for non-household customers. The Company applies the IFRS 9 'Financial Instruments' ("IFRS 9") simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 March 2021 or 1 April 2020 respectively and the corresponding historical credit losses experienced within this period. The Company reviews current and forward looking information on macroeconomic factors affecting the ability of the customer to settle the receivable or the contract asset. Whilst the full economic impact of the COVID-19 pandemic is still emerging the Company believes that there will be a future impact on the recovery of household debt and has estimated an expected increase in the impairment of unmeasured and measured trade receivables of 0.53%, (£0.9m) and 0.33%, (£0.6m) respectively (based on an increase to provisioning rates of 0.62% and 0.35% respectively). This estimate has been based on historic collections data from previous financial crises and an assessment of the potential impact on household debt. A 100-basis point (decrease) / increase in the year end collection rates would cause the impairment provision for unmetered and metered trade receivables to increase / (decrease) by £2.7m and £2.6m respectively.

See note 18 for the net carrying amount of the receivables and associated impairment provision and page 37 for further information about the impact of the COVID-19 pandemic.

5. REVENUE

	2021 £m	2020 £m
Appointed income		
Household - measured	53.4	49.0
Household - unmeasured	41.7	45.2
Non-household - measured	19.2	25.5
Non-household – unmeasured	0.3	0.3
Contributions from developers	1.8	1.8
Third party services	1.4	1.9
Rental income	0.8	0.7
	118.6	124.4
Non-appointed income		
Recreations	0.5	0.7
Rental income	0.1	0.1
Other	0.3	0.3
	0.9	1.1
	119.5	125.5

Appointed income is income earned under the Company's water's licence to supply water.
Non-appointed income relates to activities that do not require a water supply licence.

Please refer to notes 4 and 18 for disclosure of contract assets, also referred to as accrued income.
Please refer to notes 22 and 23 for disclosure of contract liabilities, which comprise deferred income and receipts in advance.

6. OPERATING COSTS

(a) Operating costs includes –

	2021 £m	2020 £m
Wages and salaries, including termination benefits	22.1	22.3
Social security costs	2.4	2.4
Defined contribution scheme costs (note 16)	2.3	2.3
Defined benefit scheme costs (note 15)	1.0	0.6
Total payroll cost	27.8	27.6
Less capitalised as tangible and intangible assets	(9.5)	(9.0)
Net staff cost	18.3	18.6
Inventory recognised as an expense	2.6	2.7
Depreciation of tangible assets including impairment (note 11)		
On owned assets	23.4	21.9
On leased assets	0.6	0.5
Amortisation of intangible assets (note 12)		
On owned assets	3.7	2.9
Other operating charges		
Auditors' remuneration	0.2	0.2
Profit on disposal of tangible assets	(0.1)	(0.7)
Other charges less recoveries	42.7	44.6
Operating costs excluding impairment losses on trade receivables	91.4	90.7
Impairment of trade receivables (note 18)	4.9	4.8
Total operating costs before exceptional items	96.3	95.5
Provision for legal and similar costs	(0.5)	7.3
Transformation costs	2.1	-
Historic raw water costs	0.6	-
Total exceptional items in the income statement	2.2	7.3
Total net operating costs	98.5	102.8

The provisions for legal costs relate to two separate legal processes the Company entered into during the previous year. A credit of £0.5m (2020: charge of £7.3m) was recognised on release of excess provision on conclusion of the cases. See note 24.

The raw water costs relate to the increase of charges payable for the financial years 2018/19 and 2019/20 following the conclusion of the arbitration with the CRT (see note 24). The increase in charge for the current year is included in other charges less recoveries above.

The transformation costs relate to a restructuring programme currently in progress.

(b) Employee details –

The monthly average number of employees by activity, including Directors on a service contract, (on a full-time equivalents basis) during the year was as follows:

	2021 No.	2020 No.
Water treatment and distribution	316	310
Support services	118	127
Administration	115	118
Non-appointed activities	16	15
	565	570

(c) Directors' emoluments –

	2021 £m	2020 £m
Aggregate emoluments of Directors, being remuneration, bonus, pension, LTIP and benefits in kind	1.2	0.9
	1.2	0.9

The highest paid Director during the year was Mr Karam; full details of his, and all other Directors' emoluments, are disclosed in the Remuneration Committee Report on pages 84-103.

(d) Independent auditors' remuneration –

During the year the Company obtained the following services from the Company's auditor and its associates:

	2021 £'000	2020 £'000
Fees payable for the audit of the Company's annual statutory financial statement	157.2	79.1
Fees payable for other services:		
Services pursuant to legislation, principally assurance and audit of regulatory accounts and returns	42.4	37.7
Assurance over PR19 process	-	60.3
Total non-audit fees	42.4	98.0

7. OTHER INCOME AND COSTS

During the year the Company received £0.3m of government grants relating to the furlough scheme which is included in other income.

On 25 March 2021 the Board made the decision to pay back all monies received under the furlough scheme to the UK government. Accordingly, £0.3m has been included within other expenses.

8. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £m	2020 £m
Interest payable and similar charges relate to:		
Bank borrowings	2.0	2.2
Term loans and debentures:		
Interest charges	10.2	10.0
Indexation	3.2	5.0
Leases	0.2	-
Capitalisation of borrowing cost	(0.3)	(0.3)
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
	16.4	18.0
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 15)	(0.4)	(0.4)
Loan to BWHUK – interest receivable	(3.9)	(4.0)
Other external investments and deposits income	-	(0.1)
	(4.3)	(4.5)
Total net interest payable and similar charges	12.1	13.5

The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.2% (2020: 4.2%), which is the weighted average interest rate of applicable borrowings.

Dividends on the 8.75% irredeemable cumulative preference shares are payable at a fixed rate of 4.375% on 1 April and 1 October each year. Payment by the Company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with IFRS 9.

9. TAXATION

	2021 £m	2020 £m
Tax expense included in Income Statement		
Current tax:		
Corporation tax on profits for the year	1.6	1.2
Adjustment to prior years	(0.2)	(0.2)
Total current tax	1.4	1.0
Deferred tax:		
Origination and reversal of timing differences	0.5	0.7
Adjustment to prior years	0.2	0.2
Effect of change in UK corporation tax rate	-	6.8
Total deferred tax (note 14)	0.7	7.7
Tax expense on profit	2.1	8.7
Tax expense income included in other comprehensive income		
Remeasurement of post employment benefit liability	(0.3)	0.1
Total tax expense / (income) included in other comprehensive income/ (expense)	(0.3)	0.1

9. TAXATION (Continued)

Reconciliation of the tax on profit on ordinary activities

The current tax rate for the year is higher (2020: higher) than the standard rate of tax. A reconciliation between tax expense and the product of accounting profit multiplied by United Kingdom corporation tax rate is as follows:

	2021 £m	2020 £m
Profit before tax	8.9	9.2
At statutory income tax rate of 19% (2020: 19%)	1.7	1.7
Adjustment in respect of prior years' current tax	(0.2)	(0.2)
Adjustment in respect of prior years' deferred tax	0.2	0.2
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	0.2	0.2
Pension adjustment	0.1	-
Other	0.1	0.1
Utilisation of rollover relief	-	(0.1)
	2.1	1.9
Effective tax rate before change in UK corporation tax rate	23.6%	20.7%
Effect of tax rate change on opening balances	-	6.8
Total taxation expense included in income statement	2.1	8.7
Effective tax rate after change in UK corporation tax rate	23.6%	94.6%

A change to the UK Corporation tax rate was announced in the Chancellor's budget on 3 March 2021 to increase the main rate to 25% from 1 April 2023. As the change to 25% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £21m, and to increase the net deferred tax liability by £21m.

10. EARNINGS PER ORDINARY SHARE

	2021 £m	2020 £m
Basic earnings per ordinary share have been calculated as follows –		
Earnings attributable to ordinary shares	£6.8	£0.5
Weighted average number of ordinary shares	6.0	6.0
	113.3p	8.3p

As the Company has no obligation to issue further shares, disclosure of earnings per share on a fully diluted basis is not relevant.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infra- structure assets £m	Assets under construction £m	Total £m
At 1 April 2019					
Cost	349.7	41.7	493.7	19.0	904.1
Accumulated depreciation	(153.2)	(27.5)	(88.7)	(4.7)	(274.1)
Net book amount	196.5	14.2	405.0	14.3	630.0
Year ended 31 March 2020					
Opening net book amount	196.5	14.2	405.0	14.3	630.0
Additions	-	-	-	64.2	64.2
Disposals	-	-	-	-	-
Capitalisation of completed assets	9.2	11.1	29.8	(50.1)	-
Depreciation charge (note 6)	(11.9)	(4.2)	(6.2)	-	(22.3)
Impairment	(0.1)	-	-	-	(0.1)
Closing net book amount	193.7	21.1	428.6	28.4	671.8
At 31 March 2020					
Cost	358.9	52.2	523.5	33.1	967.7
Accumulated depreciation	(165.2)	(31.1)	(94.9)	(4.7)	(295.9)
Net book amount	193.7	21.1	428.6	28.4	671.8
Year ended 31 March 2021					
Opening net book amount	193.7	21.1	428.6	28.4	671.8
Additions	-	-	-	35.2	35.2
Disposals	-	(0.1)	-	-	(0.1)
Capitalisation of completed assets	10.9	4.7	29.9	(45.5)	-
Depreciation charge (note 6)	(12.3)	(5.2)	(6.5)	-	(24.0)
Closing net book amount	192.3	20.5	452.0	18.1	682.9
At 31 March 2021					
Cost	369.6	55.1	553.4	22.8	1,000.9
Accumulated depreciation	(177.3)	(34.6)	(101.4)	(4.7)	(318.0)
Net book amount	192.3	20.5	452.0	18.1	682.9

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £2.0m (2020: £0.2m).

The impairment of fixed assets (in 2019/20) arose following fire damage at a treatment works.

The net book value of property, plant and equipment includes £6.2m (2020: £6.0m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2021 £0.3m (2020: £0.3m) was capitalised using a weighted average interest rate of 4.20% (2020: 4.20%). This is the weighted average interest of applicable borrowings.

Assets under construction include all expenditure on plant, vehicles and other assets up to the point at which they are brought into use upon completion.

Included in the above at 31 March 2021 is freehold land, not subjected to depreciation in the year, of £1.8m (2020: £1.7m).

12. INTANGIBLE ASSETS

	Computer Software £m	Assets under construction £m	Total £m
At 1 April 2019			
Cost	33.0	2.5	35.5
Accumulated amortisation	(25.0)	-	(25.0)
Net book amount	8.0	2.5	10.5
Year ended 31 March 2020			
Opening net book amount	8.0	2.5	10.5
Additions	-	6.4	6.4
Capitalisation of completed assets	5.1	(5.1)	-
Amortisation charge (note 6)	(2.9)	-	(2.9)
Closing net book amount	10.2	3.8	14.0
At 31 March 2020			
Cost	38.1	3.8	41.9
Accumulated amortisation	(27.9)	-	(27.9)
Net book amount	10.2	3.8	14.0
Year ended 31 March 2020			
Opening net book amount	10.2	3.8	14.0
Additions	-	3.0	3.0
Capitalisation of completed assets	3.8	(3.8)	-
Amortisation charge (note 6)	(3.7)	-	(3.7)
Closing net book amount	10.3	3.0	13.3
At 31 March 2021			
Cost	41.9	3.0	44.9
Accumulated amortisation	(31.6)	-	(31.6)
Net book amount	10.3	3.0	13.3

13. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	£m
At 1 April 2020	65.5
Loan repayment	(4.4)
At 31 March 2021	61.1

On 31 March 2021 BWHUK repaid £4.4 million of the loan advanced in 2005.

Other investments comprise loans advanced to BWHUK. The details are as follows:

Agreement date	Loan advance date	Fixed interest rate*	Loan repayment date	Principal outstanding	
				2021 £m	2020 £m
4 December 2003	12 February 2004	6.042%	30 September 2033	47.0	47.0
10 June 2005	13 July 2005	5.550%	30 September 2032	14.1	18.5

* Interest rates for the above loans to parent company were based on the Company's long-term loan interest rates at the time of issuance.

14. DEFERRED TAXATION

	2021 £m	2020 £m
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	72.3	71.6
Deferred income	(5.8)	(5.8)
Short-term timing differences	(0.1)	(0.1)
Net deferred tax liability	66.4	65.7
Reflected in the statement of financial position as follows:		
Deferred taxation asset	(5.9)	(5.9)
Deferred taxation liability	72.3	71.6
Deferred tax liabilities net	66.4	65.7

Deferred tax liabilities

	Accelerated capital allowances £m	Total £m
At 1 April 2019	63.2	63.2
Charged to the income statement	1.0	1.0
Charged to the income statement – change of rate	7.4	7.4
At 31 March 2020	71.6	71.6
Charged to the income statement	0.7	0.7
At 31 March 2021	72.3	72.3

Deferred tax assets

	Deferred income £m	Other £m	Total £m
At 1 April 2019	(5.1)	(0.1)	(5.2)
Credited to the income statement	(0.1)	-	(0.1)
Credited to the income statement – change of rate	(0.6)	-	(0.6)
At 31 March 2020	(5.8)	(0.1)	(5.9)
Credited to the income statement	-	-	-
At 31 March 2021	(5.8)	(0.1)	(5.9)

15. RETIREMENT BENEFIT SURPLUS

Defined benefit scheme

Pension arrangements for employees are partly provided through the Company's membership of the WCPS, which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the Trustees of the scheme. The employees in the section stopped earning additional defined benefit pensions on 31 March 2016. All eligible employees were offered membership of a stakeholder pension scheme. The process to buy-out and wind up the Scheme is continuing including discussions regarding the release of the surplus on completion of this process.

In addition to providing benefits to employees and ex-employees of the Company, the section provides benefits to former employees of the Company who transferred to BWBSL. The majority of the section assets and liabilities relate to the Company employees and ex-employees.

The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP, "LCP"). The details of the last triennial valuation and current update on the funding position are provided on page 15 in the Strategic Report.

From 1st April 2016, there were no employer contributions to the scheme. On 30th June 2016, with the agreement of the trustees, deficit contributions also ceased.

On 7 June 2018, the Trustees of the Bristol Water Section of the WCPS purchased a bulk annuity policy to insure the benefits for members in the Section. Following this, the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now materially match the value of the liabilities.

On 26 October 2018 the High Court issued a ruling in the Lloyds Banking Group court case requiring them to equalize benefits payable to men and women under its UK defined benefit pension plans. The inequalities arose from statutory differences in the retirement ages and rates of actual of benefits for men and women related to Guaranteed Minimum Pension benefits that were included in UK defined benefit pension plans. This is a minimum level of benefit that certain pension schemes had to provide in order to benefit from paying reduced National Insurance Contributions. In its ruling the High Court also provided details on acceptable alternative

methods of amending plans to equalise the pension benefits. Following advice from LCP £1.0m is included within the scheme liabilities for estimated GMP equalisation costs.

On 20 November 2020, the High Court handed down a further judgment, stating that pension schemes should pay uplifts in respect of members who had transferred benefits out in the past (back to 17 May 1990), where those benefits were not equalised in line with the 2018 judgment. Following advice from LCP a further £0.1m estimated cost has been recognised as a past service cost in the income statement.

Risks of the scheme

Following the purchase of the bulk annuity policy, the balance sheet asset is now largely only exposed to changes in the value of the invested assets. This is because the value of the insurance policy is set equal to the value of the corresponding obligations meaning that any changes in financial conditions or other assumptions will affect the value of the insurance policy and the corresponding obligations by broadly the same amount.

The value of the pension scheme surplus has been restricted by an income tax deduction of 35% under UK tax legislation. An increase in the income tax rate will reduce the net pension scheme surplus.

Basis of valuation

The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2017 was updated to 31 March 2021, by LCP, using the following major assumptions in accordance with IAS 19 'Employee Benefits':

Assumptions:	2021	2020
RPI Inflation	3.6%	2.9%
CPI Inflation	3.1%	1.9%
Discount rate	1.9%	2.3%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into the following average life expectancies in years:

Life expectancy at age 60 at the balance sheet date	2021	2020
Men	27.6	27.6
Women	29.9	29.8
Life expectancy at age 60, 25 years from balance sheet date		
Men	30.4	30.4
Women	32.1	32.1

15. RETIREMENT BENEFIT SURPLUS (Continued)

Reconciliation of scheme assets and liabilities:

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2019	187.8	(173.2)	14.6
Section expenses	(0.6)	-	(0.6)
Interest income (note 8)	4.3	(3.9)	0.4
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(13.0)	-	(13.0)
Changes in financial assumptions	-	12.2	12.2
Changes in demographic assumptions	-	-	-
Experience adjustments on obligation	-	1.3	1.3
	(13.0)	13.5	0.5
Benefits paid	(7.5)	7.5	-
Pension scheme surplus at 31 March 2020	171.0	(156.1)	14.9
Pension scheme surplus at 1 April 2020	171.0	(156.1)	14.9
Section expenses	(0.9)	-	(0.9)
Past service cost	-	(0.1)	(0.1)
Interest income (note 8)	3.8	(3.4)	0.4
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	30.7	-	30.7
Changes in financial assumptions	-	(36.8)	(36.8)
Changes in demographic assumptions	-	(0.6)	(0.6)
Experience adjustments on obligation	-	6.4	6.4
	30.7	(31.0)	(0.3)
Benefits paid	(13.5)	13.5	-
Pension scheme surplus at 31 March 2021	191.1	(177.1)	14.0

Total amount recognised on the statement of financial position:

	2021 £m	2020 £m
Fair value of plan assets	191.1	171.0
Pension scheme obligation	(177.1)	(156.1)
Pension scheme surplus	14.0	14.9
Less: restriction of surplus	(4.9)	(5.2)
Net pension scheme surplus	9.1	9.7

In accordance with IAS19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Company believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised.

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been shown above as a restriction to the value of the net pension scheme asset that can be recognised for this scheme.

Sensitivity

The sensitivity of the pension scheme obligation at 31 March 2021	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.1% pa	(2.8)	2.9
Inflation assumption (CPI)	0.1% pa	2.5	(2.5)
Life expectancy	1 year	9.1	(9.0)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Following the purchase of the bulk annuity policy, any changes in the value of the obligations would largely be matched by a corresponding change in the value of the Section's assets.

Total cost recognised as an expense / (income):

	2021 £m	2020 £m
Interest income (note 8)	(0.4)	(0.4)
Section expenses	0.9	0.6
Past service cost	0.1	-
	0.6	0.2

The market value of the plan assets was:

	2021				2020			
	Quoted £m	Unquoted £m	2021 £m	%	Quoted £m	Unquoted £m	2020 £m	%
Liquidity funds	13.6	1.0	14.6	7.6	15.5	0.2	15.7	9.2
Insurance policy	-	175.9	175.9	92.1	-	155.1	155.1	90.7
Cash	-	0.6	0.6	0.3	-	0.2	0.2	0.1
	13.6	177.5	191.1	100	15.5	155.5	171.0	100

The return on the plan assets was:

	2021 £m	2020 £m
Interest income	3.8	4.3
Remeasurements	30.7	(13.0)
Total return on plan assets	34.5	(8.7)

The current weighted average duration of the expected benefit payments from the Section is around 16 years.

16. DEFINED CONTRIBUTION PENSION SCHEME

The Company operates a defined contribution retirement benefit scheme for employees. Following the closure of the defined benefit scheme all affected employees have been offered membership of this scheme. The total cost charged to income of £2.3m (2020: £2.3m) represents contributions payable to the scheme. As at 31 March 2021 and 31 March 2020, all contributions due have been paid over to the scheme.

17. INVENTORY

Inventory comprises consumable stores. The replacement cost of inventory is not considered to be materially different from its carrying value in the balance sheet.

18. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2021 £m	2020 £m
Trade receivables	24.6	25.2
Less bad debt provision (a)	(15.9)	(15.3)
	8.7	9.9
Amounts owed by group undertakings (b)	2.6	3.8
Other receivables	2.0	3.2
Prepayments and accrued income	14.9	13.7
Corporation tax	1.4	1.4
	29.6	32.0

(a) The aging of net trade receivables was:

	2021 £m	2020 £m
Past due by 0-30 days	1.7	1.7
Past due by 31-120 days	1.4	1.6
Past due by more than 120 days	5.6	6.6
	8.7	9.9

Bad debt provision:

	2021 £m	2020 £m
Opening balance	15.3	13.7
Provision for trade receivables impairment (note 6)	4.9	4.8
Trade receivables written off during the year as uncollectible	(4.3)	(3.2)
Closing balance	15.9	15.3

As at 31 March 2021, £15.9m (2020: £15.3m) of trade receivables were considered impaired and have been provided for. See note 4 for further details.

The Group's policy is to consider the trade receivables impairment to be allocated on a collective basis and only impaired for the purposes of IFRS 7, 'Financial Instruments: Disclosures' when the loss can be specifically identified with the trade receivables. The Company is required to continue providing residential customers with water regardless of payment.

Other receivables at 31 March 2021 and 31 March 2020 have not been impaired.

(b) The sum of £0.4m (2020: £0.4m) is included within the heading 'Amounts owed by group undertakings' in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited ("BWH"), a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

19. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following:

	2021 £m	2020 £m
Cash and cash equivalents	4.8	4.0
Restricted cash	6.1	6.1
	10.9	10.1

Restricted cash is funds the Company is required to maintain, under the terms of the Company's Security Trust and Intercreditor Deed ("STID"), in a nominated account to cover estimated debt service payments arising during the following year. These funds are therefore not available for other operational use or distribution to shareholders.

20. LEASES

The Company has lease contracts for various assets. The amounts recognised in the financial statements in relation to the leases are as follows:

a) Amounts recognised in the Statement of Financial Position

The Statement of Financial Position shows the following amounts relating to leases:

Right of use assets included in Property, Plant and Equipment

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infrastructure assets £m	Total £m
At 31 March 2021				
Cost	10.0	3.2	1.2	14.4
Accumulated depreciation	(9.5)	(1.4)	(1.0)	(11.9)
Net book value	0.5	1.8	0.2	2.5
At 31 March 2020				
Cost	10.0	3.3	1.2	14.5
Accumulated depreciation	(9.4)	(1.1)	(1.0)	(11.5)
Net book value	0.6	2.2	0.2	3.0

20. LEASES (Continued)

Right of use assets included in Intangible Assets

	Computer software £m	Total £m
At 31 March 2021		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-
At 31 March 2020		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-

Lease liabilities

	31 March 2021 £m	31 March 2020 £m
Current	0.4	0.9
Non-current	1.5	1.9
	1.9	2.8

Additions and disposals to property, plant and equipment relating to assets under leases were £nil (2020: additions £2.5m, disposals £nil).

b) Amounts recognised in the income statement

The Income Statement shows the following amounts relating to leases:

Depreciation charge relating to assets under leases

	2021 £m	2020 £m
Freehold land, operational properties and structures	0.1	0.3
Plant and equipment	0.4	0.2
	0.5	0.5
Interest expense (included in finance cost)	0.2	-
Expense relating to short-term leases (included in administrative expenses)	0.1	0.1
The future minimum finance lease payments are as follows:		
Within one year	0.5	1.0
Between one and five years	1.2	1.7
Later than five years	0.7	0.7
Total gross payments	2.4	3.4
Impact of finance expenses	(0.5)	(0.6)
Carrying value of liability	1.9	2.8

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, currency and security.

The Company used incremental borrowing rates specific to each lease and the rates range between 4.7%-8.7% translating to an average rate of 4.9%. A 100-basis point increase/(decrease) in the rate would cause the lease liabilities to (reduce)/increase by £0.1m and a corresponding (decrease)/increase in the right-of-use assets by the same amount.

The total cash outflow for leases in 2021 was £1.2m (2020: £0.8m)

21. BORROWINGS AND DERIVATIVES

	2021 £m	2020 £m
Amounts falling due within one year		
Bank and other term loans – secured	9.0	-
	9.0	-
Amounts falling due after more than one year but less than five years		
Bank and other term loans – secured	47.0	50.0
Net unamortised premiums arising on issue of term loans	0.3	-
	47.3	50.0
Amounts falling due after more than five years		
Bank and other term loans – secured	329.5	326.3
Net unamortised premiums arising on issue of term loans	0.8	1.1
	330.3	327.4
Irredeemable		
Debentures	1.6	1.6
8.75% irredeemable cumulative preference shares (note 26)	12.5	12.5
	14.1	14.1
Total	400.7	391.5

None of the bank and other term loans included within creditors are payable in instalments.

21. BORROWINGS AND DERIVATIVES (Continued)

Security for borrowings

The majority of the Company's financial liabilities are secured. The security is given:

In respect of the Company:

- by way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 1991), its present future goodwill, all rights and claims in relation to charged bank accounts, all book debts, all insurances, all rights, title and interest to all investments and all plant and machinery; and
- a floating charge over the whole of its undertaking.

Prior to enforcement of the security by the lender, the Company is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the STID.

In respect of Bristol Water Core Holdings Limited ("BWCH") (the immediate parent of the Company), as security for the obligations of the Company:

- a fixed charge over its shares in the Company together with a floating charge over the whole of its undertaking.

	Interest rate %	Maturity	Total 2021 £m	Total 2020 £m
Current loans and borrowings				
£9,000,000 bank loan	0.49%	2 Dec 2021	9.0	-
Total current loans and borrowings			9.0	-
Non current loans and borrowings				
£9,000,000 bank loan			-	9.0
£16,000,000 bank loan	0.79%	2 Dec 2023	16.0	16.0
£31,000,000 bank loan	0.74%	21 Jun 2023	31.0	25.0
£25,000,000 bank loan	2.61%	24 Aug 2028	25.0	25.0
£50,000,000 bank loan	1.06%	14 Jun 2028	50.0	50.0
£91,109,686 indexed linked term loan	3.64%	30 Sept 2032	145.4	143.1
£57,500,000 term loan	6.01%	30 Sept 2033	57.5	57.5
£40,000,000 indexed linked term loan	2.70%	25 Mar 2041	51.6	50.7
Net unamortised premiums			1.1	1.1
£1,405,218 Consolidated debentures	4.00%	irredeemable	1.4	1.4
£54,875 perpetual debentures	4.00%	irredeemable	0.1	0.1
£72,900 perpetual debentures	3.50%	irredeemable	0.1	0.1
£12,500,000 cumulative preference shares	8.75%	irredeemable	12.5	12.5
Total non- current loans and borrowings			391.7	391.5

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2021 £m	2020 £m
Expiring in December 2021	6.0	6.0
Expiring in June 2023	19.0	25.0
Expiring in December 2023	19.0	19.0
	44.0	50.0

The facilities are floating rate and incur non-utilisation fees at market rates.

22. DEFERRED INCOME

	2021 £m	2020 £m
Net book value, beginning of year	83.6	81.6
Additions	2.9	3.8
Recognised as income in the year (note 5)	(1.8)	(1.8)
Net book value, end of year	84.7	83.6
Current	1.8	1.8
Non-current	82.9	81.8
	84.7	83.6

23. TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Trade and other payables		
Receipts in advance	11.6	11.4
Trade payables	5.2	3.0
Amounts owed to group undertakings	1.8	1.4
Other taxation and social security	0.7	0.7
Payments received on account	0.8	0.5
Accruals	15.2	19.5
	35.3	36.5

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

24. PROVISIONS FOR LIABILITIES

	Legal and similar costs £m	Total £m
1 April 2019	-	-
Additions	7.3	7.3
Utilised in the year	(0.9)	(0.9)
At 31 March 2020	6.4	6.4
Utilised in the year	(5.4)	(5.4)
Provision released to income statement	(0.5)	(0.5)
At 31 March 2021	0.5	0.5

In November 2019, the Company entered into a formal arbitration process with CRT concerning charges for the supply of raw water to the Company from the Gloucester and Sharpness Canal. The Company is supplied raw water from the Gloucester and Sharpness Canal, under an agreement with CRT. The agreement provides for charges payable to CRT to be reviewed periodically and during 2018/19 CRT triggered a charges review seeking a substantial increase. The Company did not believe such an increase was supportable and challenged the claim. A provision was recognised in the prior year, to cover the estimated costs associated with the arbitration, principally being legal and expert witness costs, of which £nil (2020: £1.6m) remain at 31 March. The arbitration process concluded during the year and the increase to the annual charge for the years 2018/19 and 2019/20 has been recognised as an exceptional cost in the year, see note 6.

Following the publication of Ofwat's 2019 Final Determination, which sets the price and services the Company must deliver over the 2020-2025 regulatory period, the Company requested a referral of this Determination to the CMA in February 2020. The Company sought a re-determination of the outcomes, in order to ensure they reflect a sustainable, financeable position for the business. A provision was recognised in the prior year in respect of the estimated costs associated with this process, of which £0.5m (2020: £4.8m) remains outstanding as at 31 March 2021. The process completed in March 2021.

25. SHARE CAPITAL

	2021 No.	2021 £m
Ordinary shares of £1 each		
Issued and fully paid		
As at 1 April and 31 March	5,998,025	6.0
All shares rank pari passu in all respects.		
Preference shares of £1 each		
Issued and fully paid		
As at 1 April and 31 March	12,500,000	12.5

The 8.75% irredeemable cumulative preference shares, which do not normally carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. The preference shares are classified as liabilities in the balance sheet.

The preference shares are classified as liabilities in the balance sheet.

26. FINANCIAL INSTRUMENTS

Fair value estimation

The fair values of the cash deposits, trade receivables, trade creditors, loans and overdrafts with a maturity of less than one year are assessed to approximate to their book values.

In the case of bank loans and other loans due in more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

The fair value of the Company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate loans from Artesian Finance II plc have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2030 plus an estimated margin.

The Company's preference shares (shown as debt within these financial statements) are listed on the London Stock Exchange and their fair value is assumed to be their quoted market price.

The long-term loans to BWHUK Limited have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin.

Fair values of financial assets and financial liabilities

Although the Company does not intend to trade in any financial instruments, the following tables provide a comparison, by category, of the carrying amounts and the fair value of the Company's financial assets and financial liabilities. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at the Company's current incremental borrowing rates for borrowings of similar types and maturities.

Fair values of non-current financial assets and liabilities

	31 March 2021		31 March 2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Non-current financial liabilities				
Long-term borrowings	(379.2)	(525.8)	(379.0)	(528.4)
8.75% irredeemable cumulative preference shares	(12.5)	(19.7)	(12.5)	(17.5)
Leases	(1.5)	(1.2)	(1.9)	(1.4)
Non-current financial assets				
Long-term loans	61.1	83.8	65.5	96.0
	(332.1)	(462.9)	(327.9)	(451.3)

The movement in the comparison of the fair value of the long-term borrowings to book value is due to fluctuations in long-term interest rates.

26. FINANCIAL INSTRUMENTS (Continued)

Fair values of other financial assets and liabilities

	31 March 2021		31 March 2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and cash equivalents	10.9	10.9	10.1	10.1
Trade and other receivables	29.6	29.6	32.0	32.0
Financial liabilities				
Current portion of long-term borrowings	(9.0)	(9.0)	-	-
Trade and other payables	(35.3)	(35.3)	(36.5)	(36.5)
Current portion of leases	(0.4)	(0.3)	(0.9)	(0.8)
	(4.2)	(4.1)	4.7	4.8

27. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's main financial instruments comprise:

- borrowings and cash;
- 8.75% irredeemable cumulative preference shares;
- various items, such as trade receivables and trade payables, that arise directly from its operations; and
- two long-term loans made to BWHUK.

The Company's significant debt financing exposes it to a variety of financial risks that include the effect of changes in debt market prices, credit risks, liquidity and interest rates. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company.

The Board is responsible for setting the financial risk management policies applied by the Company. The policies are implemented by the finance department. The finance department has a policies and procedures manual that sets out specific guidelines to manage interest rate risk, credit risk and the use of financial instruments to manage these risks.

(a) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. During the year cash and cash deposits were placed with banks for either a fixed term or repayable on demand, earning interest at market rates. There are also interest-bearing fixed rate loans totaling £61.1m (2020: £65.5m) to BWHUK.

(b) Interest rate risk and inflation risk of financial liabilities

The financial liabilities consist of interest-bearing loans, debentures, finance leases and 8.75% irredeemable cumulative preference shares.

The Company's practice is to maintain the majority of its net debt on a fixed rate or a fixed margin above movements in RPI basis. At the year-end, 22% (2020: 23%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 72% (2020: 74%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The remainder was at floating rates.

The Company's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities. The balance between fixed or index-linked, and floating interest rate liabilities will be kept under review and is dependent on the availability of such resources in the financial markets.

The carrying value of the Company's index-linked borrowings is exposed to changes in RPI. The Company's regulatory capital value and water supply revenues are also linked to RPI in the current regulatory period. Accordingly index-linked debt partially hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the indexation is provided through adjustment to the principal rather than in cash.

Interest rate sensitivity

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Company's profits.

The sensitivity analysis includes the effect on all financial instruments exposed to changes in interest rate.

	31 March 2021		31 March 2020	
	Profit before tax £m	Profit after tax £m	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	1.0	0.8	1.0	0.8

Inflation rate sensitivity

The year-end carrying value of index-linked debt held by the Company is as follows:

	2021 £m	2020 £m
Index-linked debt	197.0	193.8

The following table shows the illustrative effect on the Company's profits of changes in RPI in relation to its index-linked debt.

	31 March 2021		31 March 2020	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	2.0	1.6	1.9	1.5

(c) Credit risk

The Company is required by the Water Industry Act 1991 to supply water to all potential customers in its licensed area. In the event of non-payment by commercial customers, but not domestic customers, the Company has a right of disconnection. For all customers the Company has implemented policies and procedures designed to assess the risk of further non-payment and recoup debts.

Under the terms of the STID, cash at bank and cash deposits are placed with banks with a minimum of Moody's P-1 and Standard & Poors A-1 credit ratings.

Debt investments at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months' expected credit losses. Applying the expected credit risk model resulted in an immaterial loss allowance at 31 March 2021 and 31 March 2020.

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27. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2021 £m	2020 £m
Long-term loans	61.1	65.5
Cash and cash equivalents	10.9	10.1
Trade and other receivables, net of bad debt provisions made	29.6	32.0
	101.6	107.6

Collateral of £0.2m (2020: £0.2m), held as security from retailers, is included in cash and cash equivalents.

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 86% (2020: 87%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

The Company actively maintains a mixture of long-term and short-term committed facilities that are designed to provide sufficient funds for operations.

The Company has undrawn facilities of £6.0m expiring in December 2021, £19.0m expiring in June 2023 and £19.0m expiring in December 2023. All the facilities are floating rate and incur non-utilisation fees at market rates.

Under the terms of the STID the Company is required to maintain sufficient funds in a nominated account to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £6.1m (2020: £6.1m), are therefore not available for other operational use or distribution to shareholders.

The table overleaf details the Company's remaining contractual payments until maturity for its non-derivative financial liabilities. The table is based on the undiscounted cash flows, and includes estimates of future interest payments and loan indexation on financial liabilities. At 31 March 2021 we have assumed that indexation will be applied at the rate of 1.4% p.a. At 31 March 2020 we assumed that indexation would be applied at the rate of 1.7% p.a. These are the latest forecast rates for inflation on index linked loans to be applied at 31 March 2021 and have been applied for each year until maturity.

	Due within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Year ended 31 March 2021					
Trade creditors	5.2	-	-	-	5.2
Due to group and associated companies	1.8	-	-	-	1.8
Other taxation and social security	0.7	-	-	-	0.7
Corporation tax payable	-	-	-	-	-
Accruals	0.7	-	-	-	0.7
Interest bearing loans and related interest	21.5	12.6	84.5	529.1	647.7
	29.9	12.6	84.5	529.1	656.1
Year ended 31 March 2020					
Trade creditors	3.0	-	-	-	3.0
Due to group and associated companies	1.4	-	-	-	1.4
Other taxation and social security	0.7	-	-	-	0.7
Corporation tax payable	-	-	-	-	-
Accruals	1.6	-	-	-	1.6
Interest bearing loans and related interest	12.6	21.1	68.2	483.5	585.4
	19.3	21.1	68.2	483.5	592.1

(e) Covenants compliance risk

Under the terms of its principal debt agreements the Company is required to comply with covenants relating to minimum levels of interest cover and to maximum levels of net debt in relation to regulatory capital value. Failure to comply may result in various restrictions being imposed upon the Company. Risk is minimised through continuous monitoring of the relevant ratios in both emerging and forecast results, and by close control of operating cash flows and capital investment programmes.

28. COMMITMENTS

Capital commitments at 31 March 2021 contracted for but not provided were £2.2m (2020: £5.7m).

29. CASHFLOW INFORMATION**(a) Net debt reconciliation****Analysis of net debt:**

	31 March 2021 £m	31 March 2020 £m
Cash and cash equivalents	10.9	10.1
Borrowings – repayable within one year (including overdraft)	(9.4)	(0.9)
Borrowings – repayable after one year	(393.2)	(393.4)
Net debt	(391.7)	(384.2)
Cash and liquid investments	10.9	10.1
Gross debt – fixed and indexed interest rates	(99.6)	(100.5)
Gross debt – variable interest rates	(303.0)	(293.8)
Net debt	(391.7)	(384.2)

Movements in net debt

	Other assets	Liabilities from financing activities				
	Cash / bank overdraft	Leases due within 1 year	Leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
	£m	£m	£m	£m	£m	£m
Net debt as at 1 April 2019	17.1	(0.5)	(0.5)	-	(359.6)	(343.5)
Cash flows	(7.0)	0.7	-	-	(27.0)	(33.3)
Other non-cash movements	-	(1.1)	(1.4)	-	(4.9)	(7.4)
Net debt as at 31 March 2020	10.1	(0.9)	(1.9)	-	(391.5)	(384.2)
Cash flows	0.8	1.1	-	-	(6.0)	(4.1)
Other non-cash movements	-	(0.6)	0.4	(9.0)	5.8	(3.4)
Net debt as at 31 March 2021	10.9	(0.4)	(1.5)	(9.0)	(391.7)	(391.7)

30. RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Group Limited group of companies, members of the iCON Infrastructure LLP companies and members of Itochu Corporation, and key management personnel.

The principal related parties are:

Bristol Water Group Limited, registered in England and Wales, whose year end is 31 March, and is the Company's ultimate UK holding company.

BWHUK, registered in England and Wales, whose year end is 31 March.

Bristol Wessex Billing Services Limited (“BWBSL”), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Bristol Water Holdings Limited, an intermediate holding company within the Bristol Water Group, which owns 100 class ‘B’ shares in the company, representing a holding of 50% of the voting and equity rights of the company. BWBSL is a joint venture undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services to this Company and Wessex Water Services Limited, under a cost sharing arrangement.

Water 2 Business Limited (“W2B”), registered in England and Wales, whose year-end is 30 June. The interest is held by BWH Limited, an intermediate holding company within the BWHUK group which owns 30 class ‘B’ shares in the company representing a holding of 30% of equity rights and 40% of voting rights of the company. W2B has a retail water and sewerage supply licence and provides retail water services to non-household customers.

Trading transactions

During the year the Company entered into trading transactions with related parties totalling:

	Sales of goods and services		Purchases of goods and services	
	2021 £m	2020 £m	2021 £m	2020 £m
Joint ventures and associates of the Bristol Water Group Limited group				
BWBSL				
- management charges	-	-	2.8	2.6
- capital expenditure	-	-	0.2	0.2
- other recharges	-	-	0.1	0.2
W2B				
- non-household supply of water	17.1	21.5	-	-
	17.1	21.5	3.1	3.0

At the year end the balances held with related parties were:

	Amounts due from		Amounts due to	
	2021 £m	2020 £m	2021 £m	2020 £m
Joint ventures and associates of the Bristol Water Group Limited group				
BWBSL	1.0	0.8	1.4	1.0
W2B	1.2	2.6	-	-
	2.2	3.4	1.4	1.0

The amounts outstanding are unsecured and will be settled in cash. As a retailer in the non-household market, W2B supplies collateral under the market codes, no guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of the amounts due from related parties.

Remuneration of key management personnel

Information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 84-103.

31. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company for this entity is BWCH, a company incorporated in England and Wales.

As at 31 March 2021, the Directors considered the ultimate parent and controlling party of the Company to be iCON Infrastructure Partners III, L.P. acting through its Managing General Partner, iCON Infrastructure Management III Limited.

The smallest and largest group in which the Company is consolidated is Bristol Water Group Limited and copies of its consolidated annual report are available from Bridgwater Road, Bristol, BS13 7AT.

32. EVENTS AFTER THE YEAR END

On 3 June 2021 100% of the issued share capital of Bristol Water Holdings UK Limited, the Company's intermediate parent company, and its subsidiaries was acquired by Pennon Group plc. The acquisition by Pennon Group plc has been referred to the CMA for review as required by law. It is expected that this review will take several months.

Independent auditors' report to the directors of Bristol Water Plc

Report on the audit of the financial statements

Opinion

In our opinion, Bristol Water Plc's financial statements:
In our opinion, Bristol Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2021; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Assurance Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- The company is structured as a single reporting unit and the audit was carried out by a single audit team.

Key audit matters

- Expected credit loss provision
- Classification of expenditure on infrastructure assets
- Valuation of the defined benefit pension obligation
- The impact of COVID-19

Materiality

- Overall materiality: £550,000 (2020: £598,000) based on 5% of profit before tax adjusted for exceptional items.
- Performance materiality: £410,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss provision Refer to Note 4 for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 18 for further details of the provision. As at 31 March 2021, the Company held a provision for the expected credit loss of domestic customer receivables amounting to £15.9m (2020: £15.3m). The recoverability of customer debts is always a key issue for water companies. The assessment of recoverability of debt is sensitive to changes in economic circumstances for individual households and as there are limited steps that a water company can take to recover debt from domestic customers, there is an ongoing risk of aged debts not being collected. In determining the expected credit loss provision, management make assumptions based on historical trends relating to non-payment of invoices and use these as a basis to assess expected credit losses in the future. COVID-19 has heightened this risk in the current period, as it has required management to exercise judgement in a period of heightened uncertainty where there is limited precedent to rely on. An additional overlay has been included in the provision to address this risk. Refer to Note 4 for details of the impact of COVID-19 on management's expected credit loss provision.	We obtained management's expected credit loss model and confirmed that it was consistent with that used in prior years. We tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using historical cash collection trends from prior years and the latest available cash collection data for the current year. In respect of the overlay for the impact of COVID-19, we assessed management's assumption by considering the previous experience of the Company during the 2008 financial crisis, together with our understanding of the effects on recoverability in the sector. Specifically, we corroborated the rates applied by considering different macro economic indicators such as forecast unemployment, analysis of household consumption patterns as well as a report commissioned by OFWAT (published in December 2020) which sets out the possible economic impacts of COVID-19 on the water sector. We also assessed the adequacy of disclosures in the notes to the financial statements in respect of the key judgements and estimates involved in the expected credit loss provision, and the sensitivity of the provision to changes in these judgements and estimates, particularly in relation to COVID-19. Based on the above we found that the level of provision held to be acceptable and the disclosures to be accurate and complete.
Classification of expenditure on infrastructure assets Refer to Note 4 for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 11 for details of capital expenditure to property, plant and equipment ('PPE') during the year. Expenditure on infrastructure assets is either capitalised as an addition to PPE or expensed in the income statement, depending on the nature of the work done. This designation is made with reference to company's policy, OFWAT guidance and the requirements of IAS 16. The key judgements relate to management's assessment of what constitutes enhancement expenditure versus maintenance expenditure, and also the determination of payroll costs relevant for capitalisation. Additions to PPE during the year amounted to £35.2m (2020: £64.2m).	We reviewed the process for determining the nature of infrastructure projects and are satisfied that the approach taken has been made appropriately in accordance with the accounting standards and on a consistent basis. We tested a sample of infrastructure projects to validate that they had been authorised and the designation as a capital project was appropriate. We also tested a sample of amounts capitalised in the year to supporting documentation, such as invoices or payroll records in the case of capitalised labour costs and confirmed that they related to a capital project where expenditure should be capitalised. From these procedures, we are satisfied that the expenditure on infrastructure assets has been classified in accordance with the company's accounting policy and relevant external guidance.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of the defined benefit pension obligation</p> <p>Refer to Note 4 for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 16 for full disclosures of the defined benefit pension scheme.</p> <p>The valuation of the defined benefit pension obligation requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to determine the obligation such as the discount rate, inflation rates and mortality could have a material impact on the calculation of the liability.</p> <p>The defined benefit pension obligation before taking account of scheme assets as at 31 March 2021 was £177.1m (2020: £156.1m).</p>	<p>We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used and compared them to our internally developed benchmarks which reflect the post pandemic environment where relevant.</p> <p>We considered the consistency and appropriateness of the methodology and assumptions applied compared to the prior year end. We also obtained appropriate evidence for the competency and qualifications of the company's actuary who performed the valuation. We checked the disclosures included in the financial statements to ensure that they were in compliance with IAS19.</p> <p>Overall, we concur that the methodology and assumptions used to determine the defined benefit pension obligation at 31 March 2021 were reasonable and that the disclosures are appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p>The impact of COVID-19</p> <p>COVID-19 has had a number of financial, as well as operational, impacts, some of which are expected to have a more sustained, longer-term impact than others. The specific areas of the financial statements where we have assessed the impact of COVID-19 as being more significant are summarised below:</p> <ul style="list-style-type: none">Recoverability of trade receivables as domestic households may face difficulties paying as we move into an economic downturn;Going concern through its impact on the Company's cash flows, both due to macro-economic factors affecting demand and the availability of external finance (see Note 3.1 and pages 111-112 for the Directors' views on going concern and viability); andDisclosure of the impact on the business in the financial statements	<p>We have considered the impact of COVID-19 on various areas of the Annual Report and performed procedures to address the risk around the impact of COVID-19. We have set out our responses to the risk in respective areas of the financial statements as below:</p> <ul style="list-style-type: none">Recoverability of trade receivables: Refer to the KAM in respect of the Expected credit loss provision above.Going concern: We have understood how management have factored in the potential impact of COVID-19 on future cash flows and the potential impact of this on covenant compliance including: delays in cash collection of household revenue and impacts on the cost base. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since year end and we have challenged management to reflect extended COVID implications in their severe but plausible downside case. Further we have assessed the availability of financial resources and the ability of the Company to deal with potential adverse circumstances over the going concern period.We have audited the disclosures provided in the financial statements and assessed the reasonableness of such disclosures. As a result of the procedures performed we consider that the disclosures are reasonable and appropriate. <p>Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£550,000 (2020: £598,000).
How we determined it	5% of profit before tax adjusted for exceptional items.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £410,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Assurance Committee that we would report to them misstatements identified during our audit above £27,500 (2020: £31,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Considering whether the entity is able to meet liabilities as they fall due over the a period of at least the next 12 months; and
- Reviewing the going concern assessment of the company, including the cash flow forecasts, availability of bank facilities and forecast bank covenant compliance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance

statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report. Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the

Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;

- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Assurance Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design

procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the listing rules, pension legislation, UK Tax legislation, OFWAT regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate financial performance, and management bias in accounting estimates and judgements.

- Audit procedures performed by the engagement team included:
- Discussions with management, in house legal counsel and the members of the Audit and Risk Assurance Committee, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
 - Challenging assumptions and judgements made by management in their significant accounting estimates;
 - Identifying and testing journal entries that met our predefined risk criteria, in particular journal entries posted with unusual account combinations; and
 - Incorporated an element of unpredictability to our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable

us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's directors as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

- Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not obtained all the information and explanations we require for our audit; or
 - adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
 - certain disclosures of directors' remuneration specified by law are not made; or
 - the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Assurance Committee, we were appointed by the members on 12 November 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 March 2013 to 31 March 2021.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
9 July 2021

Glossary of Acronyms	
ACIP	Annual Cash Incentive Plan
ACT	Advance Corporation Tax
AMP	Asset Management Plan
ARAC	Audit and Risk Assurance Committee
BWBSL/Pelican	Bristol Wessex Billing Services Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Competition and Markets Authority
C-MeX	Customer Measure of Experience
CRI	Compliance Risk Index
CRT	Canal and River Trust
DEFRA	Department for Environment, Food and Rural Affairs
D-MeX	Developer Services Measure of Experience
DWI	Drinking Water Inspectorate
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
GDPR	General Data Protection Regulation
GMP	Guaranteed Minimum Pension
iCON	iCON Infrastructure LLP
iCON Bristol	iCON Infrastructure Partners III (Bristol) LP
iCON III	iCON Infrastructure Partners III LP
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INED	Independent Non-Executive Director
ITOCHU	Itochu Corporation
KPI	Key Performance Indicator
LTIP	Long Term Incentive Plan
MSA	Modern Slavery Act
NED	Non-Executive Director
ODI	Outcome Delivery Incentive
PCC	Per Capita Consumption
PR19	Price Review 2019
PR24	Price Review 2024
RCV	Regulatory Capital Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RORE	Return on Regulatory Equity
STID	Security Trust and Intercreditor Deed
WCPS	Water Companies' Pension Scheme
W2B	Water 2 Business Limited



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