

An aerial photograph of a city, likely Bristol, showing a large body of water in the foreground that reflects the sky and the surrounding urban landscape. The city features a mix of residential and commercial buildings, with a prominent bridge crossing the water. The overall scene is bathed in a warm, golden light, suggesting a sunset or sunrise.

Annual Performance Report

Year ended 31 March 2018

BRISTOL
WATER

The Company was appointed by the Secretary of State for the Environment as a Water Undertaker under the Water Act 1989 and is required to comply with Conditions set out in its Instrument of Appointment (“the Licence”).

The regulatory information that follows has been prepared in accordance with Condition F of the Licence and Regulatory Accounting Guidelines (RAGs) issued by the Water Services Regulation Authority (Ofwat). This annual performance report has been prepared for use by Ofwat. It may not be appropriate for any other purpose. As required by Ofwat, the accounting statements do not correspond with the statutory annual report, the differences to the statutory accounts are shown.

The statutory annual report contains a suite of reports, including a strategic report, which provide comprehensive commentary on the company’s activities during the year.

The accompanying Historical Cost and Current Cost Accounting Statements were approved by a Committee of the Board on 13th July 2018.

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Trust beyond water

A statement from the Bristol Water Board

Bristol Water was formed in 1846 under an Act of Parliament with a ground-breaking and ambitious aim to bring, fresh, clean drinking water to the area we serve. This ambition was essential to the health and wellbeing of all and not just for the few. The Board of Bristol Water continues to carry forward this vision of a water company doing what it can for the communities we serve.

Bristol Water is on a journey to transform itself. Building on our excellent trust with our local communities and customers, we want to be regarded as a leading organisation known to excel at customer service and experiences in an innovative and efficient way. The Company set itself ambitious performance targets for 2015-20, for instance to reduce leakage by 12%. Our current price control for 2015-2020 also set challenging cost reduction and financial targets for Bristol Water, reflected in a 14% reduction in customer bills in 2015. We continue to work hard to improve our service offering and finding efficient ways to develop every facet of our business.

2017/18 performance

2017/18 has been a challenging year for Bristol Water. A major burst main in July 2017 at Willsbridge was the biggest in our recent company history and saw 35,000 properties without their normal water supply for up to 29 hours. In January 2018 a routine sample of raw water at Clevedon Treatment Works was found to contain cryptosporidium oocysts which led to us issuing a precautionary

boil water notice to around 7,000 properties until we could guarantee that there was no risk to our customers. In March 2018 we had to cope with a spell of severe weather which saw pipe bursts increase dramatically across our network and at customer properties.

In each case we responded well, with our planning allowing us to take swift action to ensure the wellbeing of our customers. Our staff worked exceptionally hard to overcome challenging circumstances. We were praised by our customers for our engagement with them in each incident, both through our staff and also through social media to provide real-time responses to questions.

This year we had tougher performance targets to meet than in previous years. We met our target to complete the Southern Resilience Scheme to improve water supply reliability and security to around 280,000 customers. We beat our target to minimise the number of people contacting us to complain about water quality ("negative water quality contacts"). Despite increased efforts we fell short of achieving our targets for reducing leakage and increasing the number of properties on a water meter. Also, incidents like Willsbridge led to us missing our target for unplanned minutes without a water supply, as well as having a negative impact on our Service Incentive Mechanism (SIM).

For water quality, we are one of the best performers in the

industry on the Drinking Water Inspectorate's new Compliance Risk Index measure, achieving a record low score of 0.032 in 2017.

In general, customers believe they get excellent services from Bristol Water, as demonstrated by the UK Customer Service Index in January 2018 (UKCSI) which placed us higher than any other water company and in third position of all utilities for customer service in the UK. This reflects the trust customers' have in the Company, even when there are operational challenges that affect them. As well as the customer culture of the staff, Bristol Water has to innovate in order to thrive and to meet the ambitions of the Board. Our Water Bar and Refill Bristol campaigns are examples of how the Company works in partnership with community stakeholders in order to build the trust of customers in their water supply, and to protect the environment their water supply relies on. Our work on the Refill Bristol campaign that we developed and promoted with City to Sea was rolled out nationally and had extensive publicity during 2017/18.

Transparency

Another key priority for Bristol Water has been transparency. In November 2017 we published an independently assured and verified mid-year performance report for the first half of 2017/18, reflecting the challenges we were facing to deliver the challenging targets we set ourselves. This report included direct comparisons of our performance to the rest of the

Trust beyond water (continued)

industry, reflecting our ambitions.

Assurance

We were disappointed not to improve our position in the lowest tier “prescribed” status in Ofwat’s Company Monitoring Framework. Our status is viewed by the Board and management as critical to delivering our future ambitions. The Board has undertaken a thorough analysis of the reasons for Ofwat’s determination, which we acknowledge, and both the Board and management are striving to address these to elevate our position in the sector. The transparency in our annual reporting has been transformed as a result, and this statement sits alongside a new, engaging summary of our delivery performance on our website.

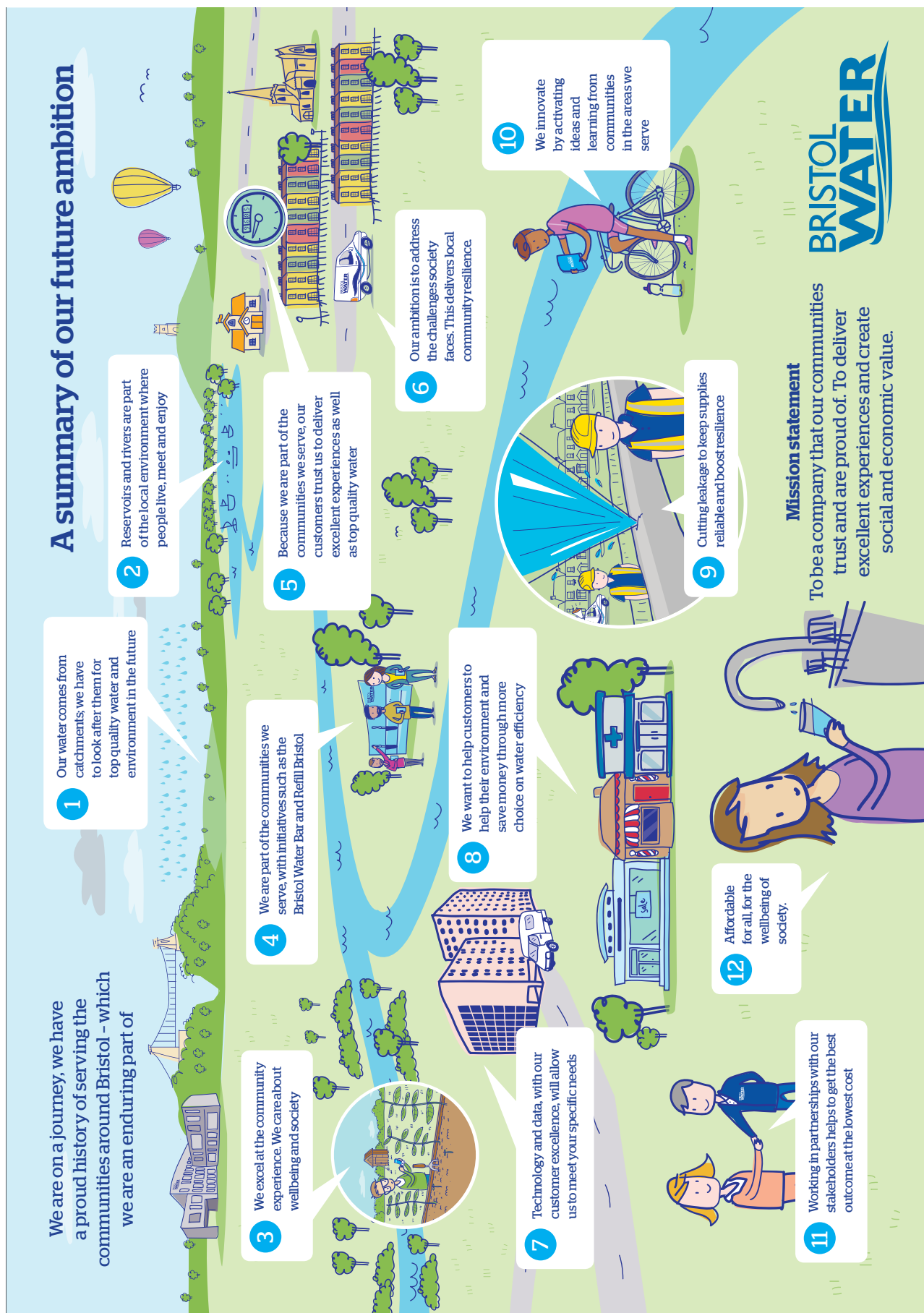
The Board anticipated that at a time of challenging performance and when the legitimacy of the water sector is under national scrutiny, it was essential that there was no ambiguity that customers’ interests are at the heart of our business, and it should always be clear that this is the case. A step of particular significance is for reporting of leakage performance, a measure that can benefit from improved technical data as well as operational performance. The Board has committed to ensure that our outcome incentive payments for 2015-20 are calculated without taking into account technical adjustments that could benefit the incentive calculation. We report our actual level of leakage to reflect the latest and most accurate data, but calculate

financial adjustments without taking any benefit from updated information.

As part of our commitment we will reduce customer bills by c£1.0m in 2019 to reflect our leakage performance this year, rather than waiting until 2020. Customer bills will reduce between 2020 and 2025 because of the financial incentives that are linked to our key performance targets.

Long-Term Strategy

In February 2018 we launched ‘Bristol Water...Clearly’, which sets out our long-term ambition for our water services, local communities and the environment over the next 30 years to 2050. ‘Bristol Water...Clearly’ places customers and trust at the heart of how we continue to fulfil our responsibilities as a trusted owner and operator of local services critical to the communities that we serve. Our four objectives, as articulated in “Bristol Water...Clearly”, are: (1) Excel at customer experience; (2) Leading efficiency; (3) Develop our people and the business; and (4) Being trusted. Developed through engagement with our stakeholders and customers, ‘Bristol Water...Clearly’ sets out how we were changing and the changes in our business to come. The summary from this document sets out our mission for the future.



Trust beyond water (continued)

PR19 Business Plan

Our long-term ambitions were also reflected in the preparations for our 2020-2025 business plan. In March 2018 we published our draft business plan consultation. We set out what we had heard from customers so far and how this had influenced our suggested plan. We set out the ambitious options we are considering for service, cost and efficiency targets, with slower and faster alternatives. The Bristol Water Board believes our long term ambition and 2020-2025 plan consultations set new standards for customer engagement and transparency, together with significant publicity in the utility trade press, in local media and through discussions through social media. This reflects the on-going transformation of Bristol Water since 2014 and the important decisions in the short-term to ensure that affordability and the wellbeing of society are secured for the long-term. Extensive research and engagement, with over 4,000 customer responses to our draft plan, has therefore shaped the business plan that we submit to Ofwat in September 2018.

Draft Water Resources Management Plan

Evidence for this can be seen in the consultation on the draft Water Resource Plan. Customer views had changed since the previous plan in 2014, in part reflecting the transformation within Bristol Water. Rather than developing new water resources, in particular a second reservoir at Cheddar as had been a focal point of the 2014 plan, customers now prefer further reductions in leakage and more help with water efficiency.

Supporting Vulnerable Customers

The most vulnerable in society are often most reliant on our supplies. We continue to offer the widest range of social tariffs in the industry, and are beating our target with a measure indicating that none of our customers remain in water poverty due to low incomes. Wellbeing for all includes those in vulnerable circumstances. Our draft business plan sets out the trade-off for bill levels and for stretching targets that will be amongst the best performers and in some cases such as leakage may lead the industry forward. The Board recognises that our efficiency progress could allow both objectives to be achieved.

Supporting our people

Our people are critical; they make Bristol Water the organisation it is through their customer service culture and dedication. Staff provide many of our future innovation ideas and are rewarded for them through our 'Brainwaves' scheme. We place an increasing emphasis on listening to our people and using the findings to share our future plans. The Board also emphasises the importance of health, safety and wellbeing of our staff, contractors and the public. The health and safety of all underpins everything we do and must be inherent in our culture.

Management and staff throughout the organisation have access to company performance related bonuses, reflecting cost, cultural targets such as Health & Safety and performance against key customer priorities such as leakage and customer service. The weighting in

performance bonuses between company targets and individual performance objectives varies and is highest weighted for executive directors, aligning their interests to achievement of organisation change and delivery for customers.

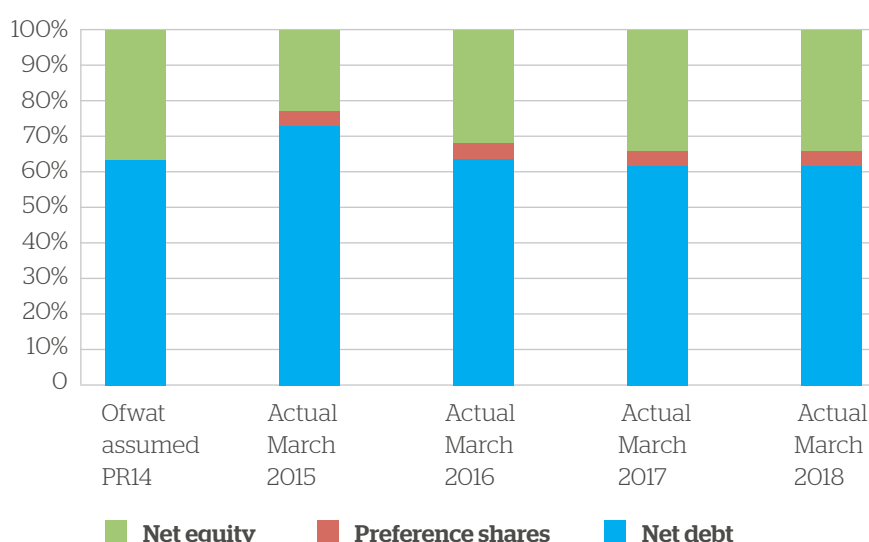
Trust beyond water (continued)

Financial Policy

The Board has been supported through this time of change by our investors, with iCON Infrastructure embedded as the main shareholder. Our debt levels are currently in the range 60-65%, consistent with notional company leverage. This has allowed us to remain comfortably within our key financial ratios. Gearing has fallen from 75.1% in March 2015 to 64.4% in March 2018, or 61.9% excluding preference shares. Debt/RCV Gearing is therefore close to the 62.5% notional gearing Ofwat assumed for the industry at the 2014 price review.

The reduction in gearing has been achieved through the Board's implementation of a conservative dividend policy following PR14, with shareholders' support, to build equity and thereby increasing financial resilience. So far in the 2015-2020 period, our expenditure outperformance (0.6% of assumed net equity) has been offset by underperformance on outcome performance incentives, such as for leakage and metering. Interest costs have been slightly higher than assumed when price controls were set, but in-line once taking into account the higher level of debt at the start of the period. Dividend yields have been an average of 1.8%, which is below the 4.0% Ofwat assumed at PR14 for 2015-2020. This demonstrates the commitment of the Board and Bristol Water's shareholders to provide a fair financial framework that supports the delivery of the long-term ambition and objectives.

Bristol Water reduction in gearing



Conclusion

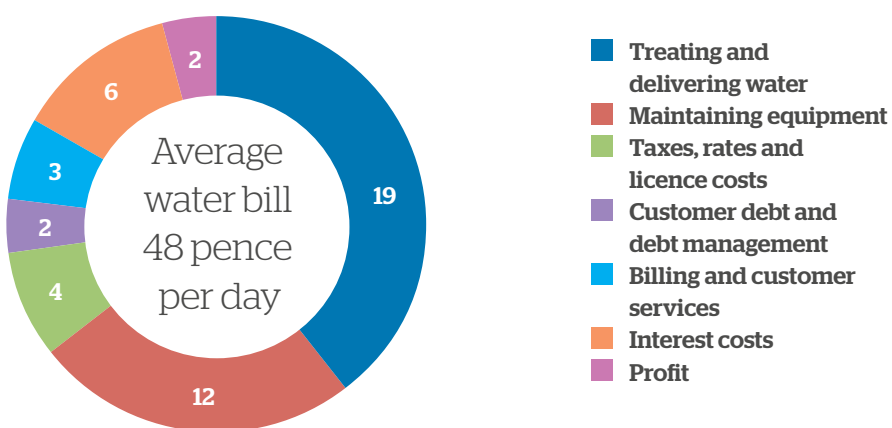
Despite some significant challenges faced during the year, the Board believes that the Company has made significant progress in a number of areas, and is highly regarded by its customers and within its local communities.

How our performance links to bills and dividends

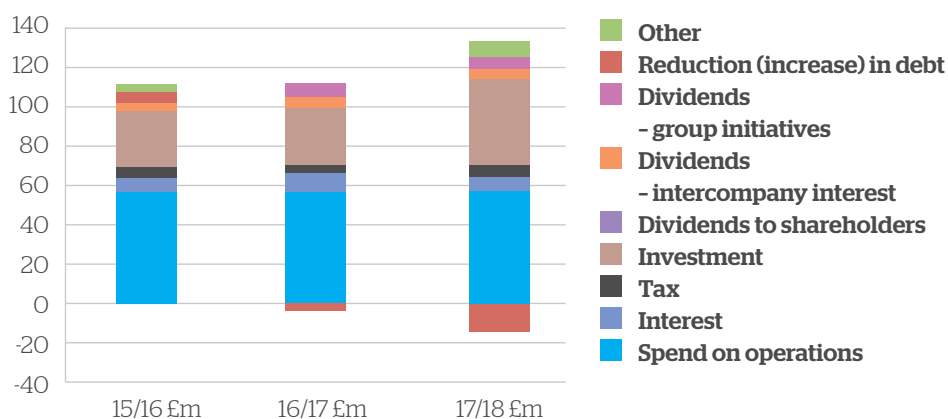
Average household customer bills in 2017/18 were £177, equivalent to 48 pence per day. Expenditure and financial assumptions within the revenue controls result in a split into different categories as shown in the graph below. Profit is either retained in the business or distributed outside of the appointed business through the payment of dividends. Dividends of £3.276m are equal to the post-tax interest received from a UK parent company in respect of inter-company loans.

The actual cash movements during 2017/18 showed an increase in net debt per table 1E of £17m, which largely reflected an increase in investment, for instance reflecting the completion of the Southern Resilience Scheme.

Where your bill goes (2017/18 - average bill pence per day)



Use of regulated revenues



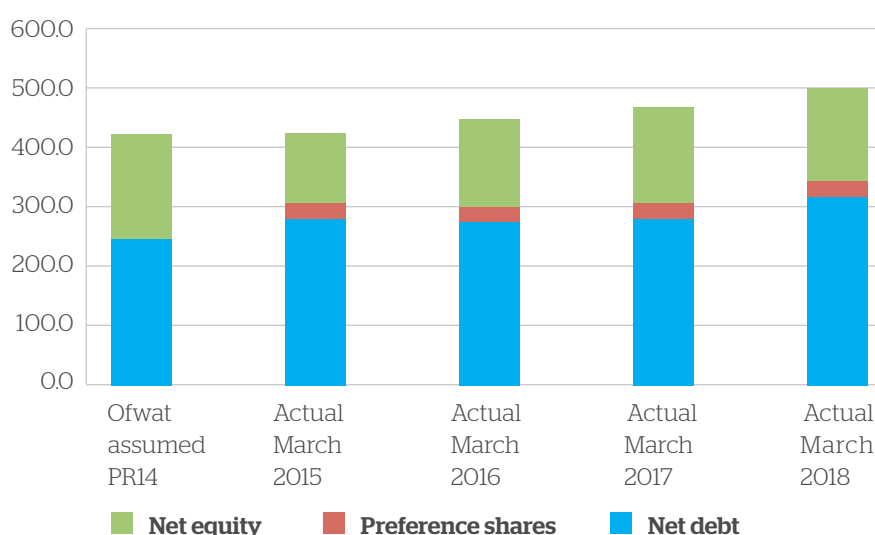
How our performance links to bills and dividends (continued)

In 2017/18 RCV increased by £32m, £16m of which was the effect of RPI inflation, compared to the increase in net debt of £17m.

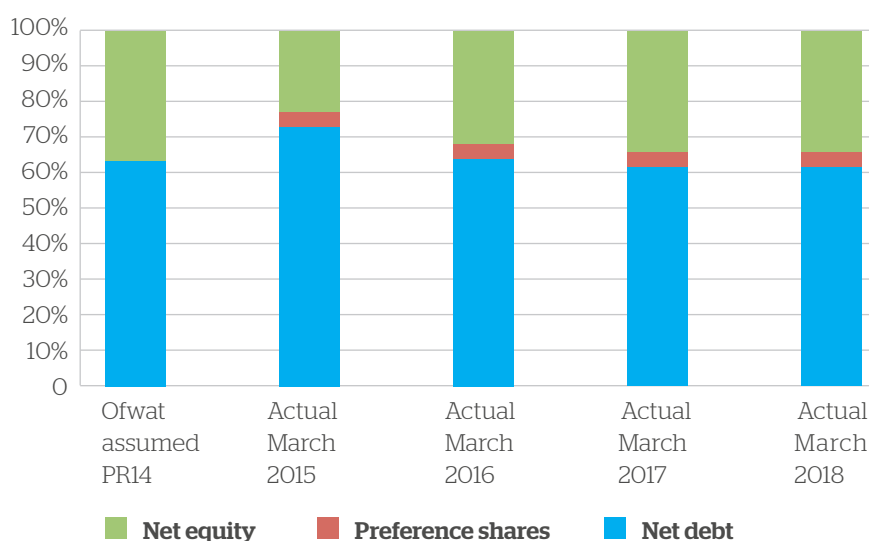
Because of the retention of equity, regulatory gearing has fallen from 75.1% in March 2015 to 64.0% in March 2018, or 61.5% excluding preference shares. Regulatory net debt/RCV Gearing is therefore consistent with the 62.5% notional gearing Ofwat assumed for the industry at the 2014 price review.

In the 2014 price review Ofwat assumed that were Bristol Water to perform in line with the price review assumptions it would earn a return on regulated equity (RORE) of 5.8%, within a range of 0.2% to 7.8%.

Bristol Water build up of net equity



Bristol Water reduction in gearing



How our performance links to bills and dividends (continued)

During 2015-17, we underperformed the Ofwat PR14 RORE assumptions, due to a higher cost of finance than assumed and underperformance on outcome incentives (ODIs). In 2017/18, higher RPI inflation meant that we outperformed on financing assumptions. With completion of the major Southern Resilience Scheme we also had sufficient certainty to forecast that an element of outperforming our total expenditure assumptions reflected an efficiency rather than timing of expenditure. This year therefore RORE at 7.4% remained

within the range assumed at PR14, but higher than the 5.8% central RORE assumption. The best measure of performance is the average over 2015 – 2018, which sees totex outperformance offset by the ODI underperformance. Overall, RORE over 2015-18 averaged 5.5% compared to the 5.8% Ofwat assumed.

The actual dividend yield is 1.8% including dividends that have been reinvested to provide working capital for the group's retail non-household joint venture. No dividends have been paid to

the current shareholders, evidenced in the reduced gearing levels from retaining equity. The table below shows how PR14 assumed returns and dividend yields, compared to our actual dividends.

	Ofwat PR14	2015/16 Actual	2016/17 Actual	2017/18 Actual	2015-2018 Actual
Return on regulated equity (RORE)	5.8%	3.9%	5.3%	7.4%	5.5%
Actual dividend yield	4.0%	0.0%	3.3%	2.0%	1.8%
Dividend yield paid to ultimate shareholders		0.0%	0.0%	0.0%	0.0%

By order of the Board
M Karam
 Chief Executive Officer
 13 July 2018

Bristol Water Challenge Panel Statement

The independent Customer Challenge Group for Bristol Water is known as the Bristol Water Challenge Panel. One of the Challenge Panel's roles is to monitor, scrutinise, challenge and report on Bristol Water's performance against the 21 commitments set out in the final report of the Competition and Markets Authority dated 6th October 2015 and the Ofwat Price Review 2014 Final Determination of December 2014.

The Challenge Panel has reviewed the company's performance against its commitments for 2017/18, both at the mid-year and end-of-year positions, including the accrual of any associated rewards and penalties under the associated regulatory incentive mechanism. It also reviewed the company's information assurance regime in place for the year and the audit findings of the company's independent technical assurer Atkins.

The Challenge Panel was pleased that the company achieved or exceeded the targets for nine of its commitments. The significant investment in the Southern Resilience Scheme plus a drive to reduce negative water quality and billing contacts contributed to the good performance. The company experienced a number of significant and unusual operational incidents during the year, primarily significant mains bursts and a major water quality incident. The unusually cold weather at the end of the period also caused problems. These events had an adverse impact on a number of interrelated performance

commitments causing a number of targets to be missed and financial penalties incurred. The company kept the Challenge Panel informed of its response to these incidents, the lessons learned from them and the steps it has taken to reduce the risk of reoccurrence. The Challenge Panel will monitor the company's performance during 2018/19.

The Challenge Panel places great importance on the need for Bristol Water to provide its customers with clear, high quality information on its service performance, on billing matters and on operational issues. Customers' trust in the company is heavily dependent upon sound information. The Challenge Panel received assurance from Atkins that both the company's reporting methodologies and the resulting data for all the performance commitments are sufficiently robust to enable the Challenge Panel to rely upon the published results.

The Challenge Panel was pleased to see that the risk of reporting poor information is reducing. The company has made progress in improving the documentation of its reporting methodologies. The company has also reviewed information that comes from third parties, particularly from its contractors, and has improved the ownership of such data within the company and such data are subject to internal checks. It is noted that further work is needed in improving the evidencing of information checking and document control. This was an issue identified last year and so the Challenge

Panel will monitor the company's response during the coming year.

The Challenge Panel thanks the Company for its openness and transparency and looks forward to reviewing the company's performance in 2018/19.

On behalf of the Bristol Water Challenge Panel.

Mrs Peaches Golding OBE
Independent chair
13 July 2018



Annual Performance report

Disclosures required by RAG 3

RAG 3 sets out requirements for narrative disclosures in the Annual Performance Report, in addition to those set out in the tables in sections 1 – 4.

Accounting Policies

i) Revenue recognition policy

The regulatory accounts apply the same policy for revenue recognition as the statutory accounts.

All turnover is recognised in the regulatory accounts with the exception of rental income, which is included below operating profit in “other net income” in accordance with the regulatory accounting guidelines.

Turnover comprises charges to and accrued income from customers and retailers for water and other services, exclusive of VAT. Turnover is recognised upon delivery of water or completion of other services.

Income from unmetered supplies is based on either the rateable value of the property or on an assessed volume of water supplied. Income from metered supplies is based on actual or estimated water consumption.

There is no change to the calculation of the household measured income accrual. Bills are raised after a meter reading, and consumption that has not yet been billed is estimated and accrued using a defined and consistently applied methodology based on historic weighted average

water consumption by tariff. There has been a change in the calculation of the non-household measured income accrual following the opening of the non-household retail market. Non-household retailers are billed monthly, and the non-household accrual is based on the market unbilled monthly settlement reports. The estimation of measured income included in these reports is also based on historic consumption. The difference between closing and opening measured income accrual for the year is recognised within turnover. There were no significant differences between the previous year's accrual and the amounts actually billed for the previous year.

Where an invoice has been raised or payment made but water or other services have not been provided, it is treated as billing or payment in advance accordingly and is not recognised as turnover during the year.

Receipts from customers in relation to court costs, solicitors' and debt recovery agency fees are credited to operating costs to offset the charges incurred. They are not recognised within turnover during the year:

ii) Charging policy

Revenue is recognised from chargeable properties in accordance with the policy above.

Charges are payable in full in the following circumstances:

a) Occupied and furnished

Charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.

b) Unoccupied and furnished

Water charges are payable in full on unoccupied, furnished premises. In exceptional circumstances, where it is certain that the customer does not need access to water supply at the property, water charges are not payable. Such exceptions include where the customer is:

- in a care home;
- in long-term hospitalisation;
- in prison;
- overseas long-term; or
- deceased.

c) Unoccupied and unfurnished

If any consumption for metered vacant household properties is recorded normal charges apply once the occupier details have been established. Normal charges apply to vacant metered non-household agricultural properties.

Properties which are unoccupied and unfurnished, or are disconnected, are not chargeable therefore no billing is raised and no turnover recognised in respect of these properties.

Only metered standing charges are payable on unoccupied metered properties which are still connected.

Disclosures required by RAG 3 (continued)

The occupier is any person who owns a premises or who has agreed to pay for water in respect of the premises. No bills are raised in the name of "the occupier". The property management process is followed to identify whether the property is occupied or not, and if occupied, to identify the chargeable person and raise a bill.

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

- physical inspection,
- mailings,
- customer contacts,
- meter readings for metered properties; and
- land registry checks.

During the year a policy to meter household properties on change of occupier was implemented.

For non-household properties, the management of the occupied status of properties is maintained by retailers in the central market operating system (CMOS). Wholesalers then bill based on the data in CMOS, and Bristol Water carries out independent checks, including visiting the properties to validate the data.

iii) Bad debt policy

The company has a policy to make a full bad debt provision for debt which remains uncollected until after five years of billing, for example uncollected debt in relation to financial year 2012/13

and before is fully provided for by the end of financial year 2017/18. A general provision is made for debt outstanding in relation to current and last four financial years. The general provision is primarily based on historic collection rates and further adjusted by judgemental factors to reflect the current economic environment. The judgemental factors are applied only if it is believed that the historic collection rates do not reflect future expected collection rates.

Water debt is written off for one of the following four reasons:

1. It is considered or known to be uncollectable.
2. It is considered uneconomic to collect.
3. Older debt is written off by agreement with the customer in return for the receipt of regular monthly payments to pay-off current year debt as part of our "Restart" and "Assist" policies.
4. Write-off is ordered by the County Court. In these cases the court may set payment at a proportion of the outstanding debt. When the required level of payment is reached the court would instruct the rest of the debt to be written-off.

The company's bad debt write off policy has remained unchanged and has been consistently applied in the current and prior years, except in respect of the non-household debt for which we no longer have a provision as under the non-household retail market codes, retailers provide collateral for their debt. The

provision at 31 March 2018 was £14.647m (31 March 2017: £14.103m, £0.345m of which was in respect of non-household debt).

Net trade debtor balance at 31 March 2018 was £10.575m (31 March 2017 comparable figure was £10.458m, the total net trade debtors including non-household was £13.902m).

iv) Price Control Segments-Basis of allocation and apportionment of costs and assets

Allocation and apportionment of costs and assets between Bristol Water plc and its associated companies is at arm's length and no cross subsidy is occurring.

Appointed business for the purpose of these accounts is defined as the activities necessary for the company to fulfil its duties and functions as a Water Undertaker under its licence issued by the Department for Environment, Food and Rural Affairs. All other activities are classified as non-appointed business.

Allocation and apportionment of costs and assets between appointed and non-appointed businesses is maintained in the company's accounting system. Costs are attributed to the appropriate cost centres which are identified as appointed or non-appointed. The majority of non-appointed costs are incurred directly with the remainder allocated on a time apportionment basis. Assets are specifically identified as appointed or non-appointed.

Disclosures required by RAG 3 (continued)

Operational costs include the costs of day to day collection, storage, treatment and supply of water and any associated technical and administrative support. Allocation of operational costs between price controls (wholesale, retail household and retail non-household) are made by analysing the cost centres and type of expenditure in accordance with RAG 2.07 (Guideline for classification of costs across the price controls).

Manpower costs include overheads in their allocation to cover national insurance and pension contributions.

Capital costs are analysed and assigned to the appropriate price control, and business unit within that price control, as they are incurred, in accordance with RAG 2.07.

RAG 2.07 changed methods of allocating costs from the previous guidelines applicable in 2016/17. The main changes are included within the new tables previously part of the cost assessment submission.

The accounting separation analyses have been drawn up in accordance with the company's accounting separation methodology statement which has been published separately on its website <https://www.bristolwater.co.uk/about-us/performance/company-financial-reports/>. This also provides commentary comparing this year's expenditure and capital maintenance costs with last year's.

v) Capitalisation policy

Definition of a fixed asset

An asset is an item that Bristol Water owns and uses in the course of its business which has some long-term economic benefit for the company. A fixed asset is an asset that we retain for more than a year. Capital costs are defined as those costs, which are incurred in providing an additional, or a replacement asset. These costs are incorporated in the Statement of Financial Position as additions to fixed assets. Where non-infrastructure assets have been replaced their cost is removed from the Statement of Financial Position. There is no rule which requires capitalisation of any costs in excess of a specific value however it is unlikely that items with a value less than £1,000 in total would be capitalised.

Assets are either infrastructure assets or non-infrastructure assets.

Types of assets

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity and enhancements are included at cost.

Infrastructure expenditure falls into two categories. Costs in respect of the provision of additional infrastructure capacity or enhancement of the

network are capitalised (these include projects such as new water mains, new connections and work on impounding reservoirs) and are depreciated. Other infrastructure expenditure to do with repair and replacement such as boundary mains replacement, network analyses, lead replacements and high-risk crossings are analysed between capital and operating expenditure, the operating expenditure is charged to the income statement.

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. These are generally categorised as non-infrastructure assets and are included at cost.

The cost of assets is their purchase cost together with incidental expenses of acquisition and commissioning and any directly attributable labour costs, which are incremental to the company.

Disclosures required by RAG 3 (continued)

vi) Dividend policy and amounts paid to parent company

It is the company's practice to pay an annual level of ordinary dividends comprising:

- a base level taking into consideration the revenues allowed by Ofwat in the 5-year determination of price limits, the company's funding requirements and the actual performance of the business; and
- an amount equal to the post-tax interest receivable from Bristol Water Holdings UK Limited, a UK parent company in respect of inter-company loans.

During the year the following dividends have been paid

- in respect of the 2018 financial year:
 - First interim base dividend of £4.000m
 - Second interim for the inter-company loan interest element of £1.638m
 - Third interim for the inter-company loan interest element of £1.629m

Structural changes in working capital requirements between retail and wholesale businesses, and the resulting acceleration of cash receipts into the wholesale business, funded the base level dividends. These were used by a holding company to loan funds to Water 2 Business Limited.

In addition, annual dividends of £1.094m (2017: £1.094m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the statement of financial position, and the dividend is therefore shown as a finance cost in the income statement.

The Board has proposed a final dividend in respect of the year ended 31 March 2018 of £nil (2017 £nil).

Tax strategy

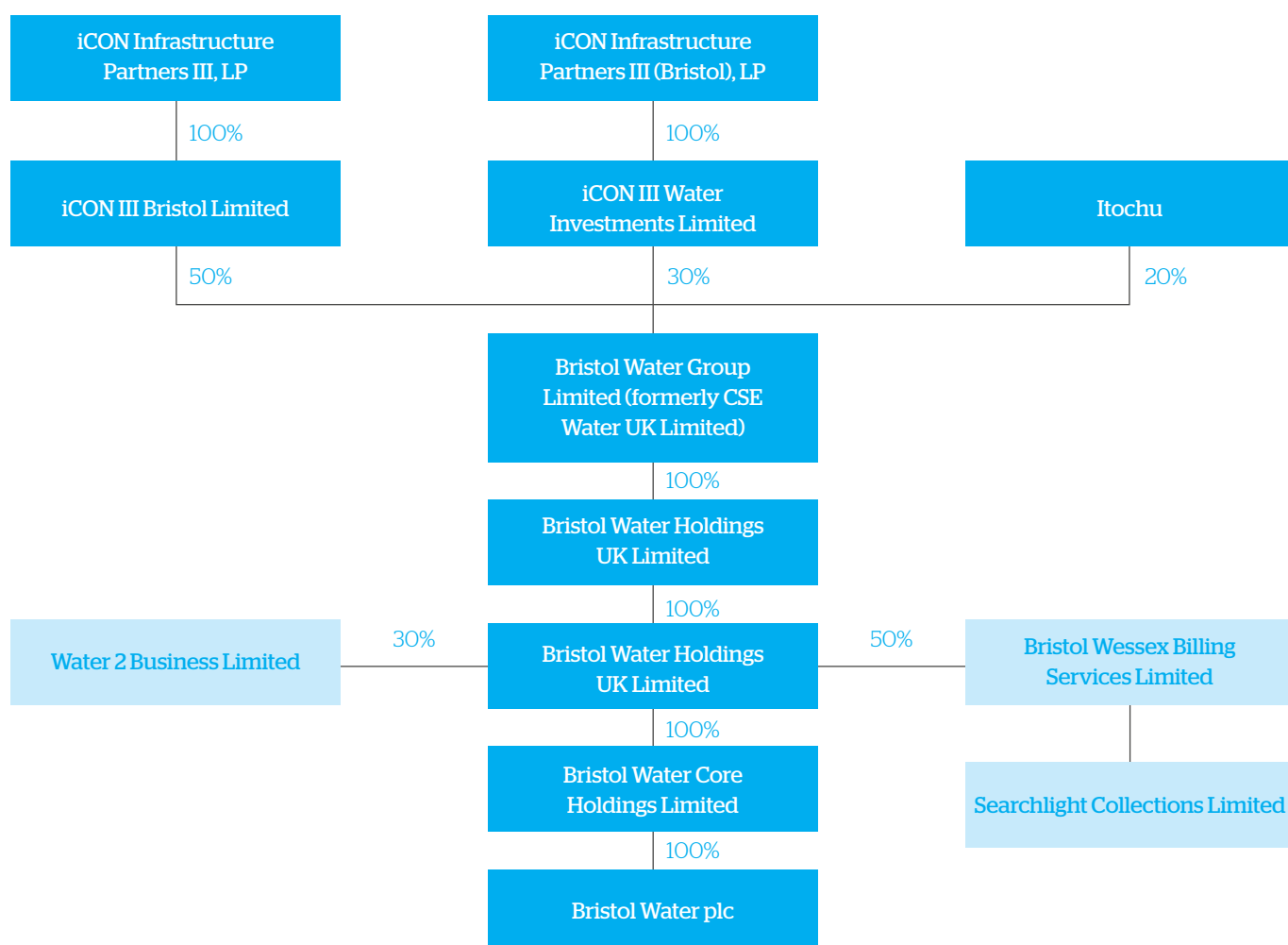
The Finance Bill 2016 introduced the requirement for large companies to publish their tax strategy annually; although Bristol Water is not deemed a large company by HMRC, Ofwat requires us to publish our tax strategy which can be found on the Company website <https://www.bristolwater.co.uk/wp/wp-content/uploads/2016/03/Approved-Tax-strategy.pdf>.

Disclosure and Transparency

The Annual Report and Financial Statements for Bristol Water plc which can be found on the Bristol Water website <https://www.bristolwater.co.uk/about-us/performance/company-financial-reports/> contains the following information:

- Review of company performance - pages 46 to 51
- Key risks to the business - pages 57 to 66
- Long Term Viability statement - pages 52 to 55

Ownership and corporate structure



Disclosure and Transparency (continued)

The Board of Bristol Water plc (Bristol Water) seek to uphold the highest standards of transparency and openness in performing its functions and dealing with all of our stakeholders. A key aspect of this relates to the ownership of Bristol Water plc.

At 31 March 2018, 80% of Bristol Water was ultimately owned by two investment funds (the "iCON Funds") which are affiliated with iCON Infrastructure LLP ("iCON"), iCON Infrastructure Partners III, L.P. ("iCON III") own 50% and iCON Infrastructure Partners III (Bristol), L.P. ("iCON Bristol") own 30%, along with 20% ultimately owned by Itochu Corporation ("Itochu").

The iCON Funds are English limited partnerships, domiciled in Guernsey. The iCON Funds employ 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. The ultimate investors in the iCON Funds are 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 obtained at www.iconinfrastructure.com.

Itochu has owned its indirect 20% shareholding in Bristol Water since May 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.

The ultimate holding company of Bristol Water is Bristol Water Group Limited (formerly known as CSE Water UK Limited) ("Bristol Water Group"), which is a UK incorporated and UK tax resident company. The iCON Funds and Itochu are indirect investors in Bristol Water Group. The iCON Funds hold their interests in Bristol Water Group through holding companies which were incorporated in Guernsey but are tax resident in the UK, namely iCON III Bristol Limited in the case of iCON III and iCON III Water Investments Limited in the case of iCON Bristol. Itochu owns its shareholding through a UK incorporated and UK tax resident holding company, which is a 100% owned subsidiary.

Bristol Water Group owns 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 owns 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.

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

During the year, Bristol Water paid dividends of £7.3m (2016/17: £9.2m) to its immediate holding company Bristol Water Core Holdings. Of this dividend, £3.3m was returned to Bristol Water in respect of interest owing on intragroup debt facilities (see below under "Group financing arrangements") and the £4.0m balance was invested in working capital of the group, with the vast majority applied to financing the working capital of Water 2 Business Limited. No dividends were paid during the year (2016/17: £nil) by Bristol Water Group 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, the iCON Funds and Itochu, to Bristol Water Group or any of its subsidiaries (including Bristol Water).

In December 2016, the iCON Funds and Itochu contributed £9.0m additional funds to the group. These funds are on a short term, non-interest bearing basis to Bristol Water Group by the holdings 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 on 15 December

Disclosure and Transparency (continued)

2016 in connection with the ending of Agbar's Operating & Management arrangement with Bristol Water Holdings UK. No payment was made in 2017/18 in respect of this payable thus £9.0m remained outstanding at 31 March 2018.

As at 31 March 2018, Bristol Water's net debt, including preference shares, was £323.4m corresponding to a ratio of 64.4% to its regulated asset base, which is in close proximity to the 62.5% notional capital structure that Ofwat assumed for water companies in AMP6. The net debt of the consolidated group comprising Bristol Water Group and its subsidiaries is also consistent with Ofwat's assumption, after adjusting for the £9.0m of short term receivables and accounting for mark-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 immediate 100% shareholder Bristol Water Holdings: a £47.0m loan earning interest of 6.042% and a £21.5m loan earning interest of 5.550% (together the "Upstream Loans"). 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 2018 (2016/17: £3.2m). These interest payments are currently funded by dividends received from Bristol Water. The Upstream Loans have been outstanding since 2003 and 2005, respectively, and are

entirely internal to the consolidated group headed by Bristol Water Group.

Governance

iCON has confirmed that the iCON Funds are aware and supportive of Ofwat's "Board leadership, Transparency and Governance - Holding Company Principles" published in April 2014 which set out Ofwat's expectations for holding companies of regulated water companies to show their adherence to the highest standards of corporate governance. This section of the Annual Performance Report addresses these Holding Company Principles and a note has been placed on the Bristol Water website noting the compliance with these principles and cross referring to this report as shown in the annual report where necessary.

There are no matters reserved specifically by the Board of Bristol Water for the shareholders. iCON has confirmed on behalf of iCON III that, other than iCON III's limited partners and iCON III's direct and indirect wholly-owned subsidiaries, there are no other beneficiaries of the regulated Company within the iCON group structure. iCON has, on behalf of iCON III in its capacity as managing general partner of iCON III, given an undertaking compliant with Condition P of the Company's licence when it took control of the Company (the "Condition P Undertaking").

iCON has confirmed, on behalf of iCON III in its capacity as managing general partner of iCON III, as follows:

- it has been briefed on Bristol Water's duties under the Water Industry Act 1991 and the licence;
- it is aware of and will comply with the terms of the Condition P Undertaking, including:
 - its obligation to provide all such information as may be necessary to enable Bristol Water to comply with the requirements of the conditions of its appointment as a water undertaker; and
 - it 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 the conditions of its appointment as a water undertaker;
- it will provide Bristol Water with the information it needs to assure itself that Bristol Water is not at risk from the activities of the wider Bristol Water group;
- it will disclose to Bristol Water details of any issue identified by its directors in respect of the Bristol Water group that might materially impact upon Bristol Water so that Bristol Water can take all appropriate steps;
- it will facilitate the ability of Bristol Water to meet the requirements of its own code of Corporate Governance; and
- it will support Bristol Water's ability to make strategic and sustainable decisions in the long term interests of the Company.

Disclosure and Transparency (continued)

Principles of Corporate Governance

Bristol Water has developed its own corporate governance code ("the BW Code") which combines the UK 2016 Corporate Governance Code ("the Code") and the "Ofwat principles." The "Ofwat principles" are set out in the Ofwat document "Board leadership, transparency and governance" published in January 2014 and enforce the UK Corporate Governance Code.

Our code of corporate governance ("the BW Code"), is available on our website <https://www.bristolwater.co.uk/wp/wp-content/uploads/2017/12/Corporate-Governance.pdf>.

Bristol Water is a private company with listed debt but no listed equity, therefore is not under an obligation to report compliance with the 2016 Corporate Governance Code, however, the conditions of our Water Licence require us to report as if we have listed equity. The Board is pleased to confirm that Bristol Water complied with the provisions set out in the BW Code for the period under review.

Ofwat Board Leadership Transparency and Governance Principles require that:

- independent directors (including an independent chairman) are the largest single group on the Board, compared with (i) executive directors, and (ii) non-executive directors 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 independent non-executive directors (including an independent chairman) on the Board.

The Company's policy is to meet these Principles and following the resignations of T Hemus and T Wood as independent non-executive directors on 19 June 2018, the Board is acting quickly to appoint new independent non-executive directors.

Directors' emoluments

Full and detailed disclosures of Directors' remuneration are included in the Directors' remuneration report (Appendix 1) which sets out the basis of Director remuneration, including bonuses, and links to standards of performance. The annual bonus arrangements (Annual Cash Incentive Plan or "ACIP") were set on 25 July 2017.

Statement of Directors' Responsibilities

The directors are responsible for preparing the regulatory accounting statements in accordance with applicable law and regulations.

Company law requires the directors to prepare accounting statements for each financial year. Under that law the directors have prepared the accounting statements in accordance with FRS101. Under company law the directors must not approve the accounts 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 accounting statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 accounting statements; and
- prepare the accounting 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 accounting statements 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 maintenance and integrity of the Company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

After making enquiries, the directors are of the opinion that the Company has adequate resources or the reasonable expectation of raising further resources as required to continue in operation for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing these accounts.

In addition, the directors have responsibility for ensuring that the Company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the licence to be prepared having regard to all Regulatory Accounting Guidelines.

The directors are also required to confirm in the accounting statements that, in their opinion, the company was in compliance with paragraph 3.1 of Condition K of the licence relating to the availability of the rights and assets at the end of the financial year.

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:

1. so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
2. 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.

By order of the Board

M Axtell

Chief Financial Officer
13 July 2018

Regulatory Certificate of Adequacy of Financial Resources by the Directors

As required under condition F6A.2A of its Instrument of Appointment relating to diversification and protection of core business the Directors of Bristol Water plc confirm:

1. That in the opinion of the Directors the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
2. That in the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:
 - a) management resources; and
 - b) systems of planning and internal control which are sufficient to enable it to carry out those functions; and
3. That in the opinion of the Directors, any contract entered into with any Associated Company includes all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee to ensure, as appropriate, that it is able to meet its obligations as a water undertaker.

As required by condition F6A.2B(1) the main factors that the Directors have taken into account in giving this certificate:

Financial resources:

- Profit and loss budget, and capital programme, for 2018/19, approved by the Board
- Monthly management accounts prepared for periods prior to the certificate date
- Cash at bank/on deposit held in the Bristol Water Statement of Financial Position of £15m at 31 March 2018
- Unutilised committed term facilities of £58m with HSBC and a further unutilised committed term facility of £7m with the Royal Bank of Scotland as at 31 March 2018.
- New facilities, signed after the year end and available in the next 12 months, of £125m

Management resources:

- Bristol Water plc has an experienced senior management team with good knowledge of the water industry.

Associated company contracts:

- The Company currently has very limited contracts with Associates and any of the associated companies do comply with the ring-fencing conditions set out in the Instrument of Appointment.

Approved by the Board and signed on its behalf on 13 July 2018 by

M Karam Chief Executive Officer
M Axtell Chief Financial Officer

Section 1

Regulatory

Financial Reporting

1A Income Statement

for the year ended 31 March 2018

	Statutory £m	Differences between statutory and RAG definitions £m	Non- appointed £m	Total adjustments £m	Total appointed activities £m
Revenue	114.914	-0.370	1.124	-1.494	113.420
Operating costs	-88.206	-1.807	-0.711	-1.096	-89.302
Other operating income	1.887	0.000	0.000	0.000	1.887
Operating profit	28.595	-2.177	0.413	-2.590	26.005
Other income	0.000	2.019	0.000	2.019	2.019
Interest income	4.107	0.000	0.000	0.000	4.107
Interest expense	-18.540	-0.734	0.000	-0.734	-19.274
Other interest expense	1.247	0.000	0.000	0.000	1.247
Profit before tax	15.409	-0.892	0.413	-1.305	14.104
UK Corporation tax	-2.800	0.000	-0.078	0.078	-2.722
Deferred tax	-0.805	0.170	0.000	0.170	-0.635
Profit for the year	11.804	-0.722	0.335	-1.057	10.747
Dividends	-7.267	0.000	-0.335	0.335	-6.932
Tax analysis					
Current year	2.683	0.000	0.078	-0.078	2.605
Adjustments in respect of prior years	0.117	0.000	0.000	0.000	0.117
UK Corporation tax	2.800	0.000	0.078	-0.078	2.722

All of the turnover and operating costs above relate to continuing operations.

Differences between Statutory and RAGs Definitions

Adjustments are made to the statutory numbers to ensure compliance with the Ofwat guidance reflected in RAG 3.10. The most significant of these are:

- Income from rents on properties of £0.370m are shown in "Other income", net of expenses, rather than in revenue.
- Grants and contributions of £1.763m amortised to the p&l within operating costs in the statutory accounts are recognised as other income.
- The cost of administering new supplies being capitalised within associated fixed assets in the statutory accounts are expensed in the regulatory accounts. Operating expenses are increased by £0.285m.
- £0.734m of borrowing costs capitalised under IAS23 in the statutory accounts are derecognised and shown in interest expense. Depreciation of capitalised borrowing costs of £0.127m is derecognised from operating costs.
- The associated deferred tax relating to the differences occurring in the profit before tax is also removed.

1B Statement of comprehensive income

for the year ended 31 March 2018

	Statutory £m	Differences between statutory and RAG definitions £m	Non- appointed £m	Total adjustments £m	Total appointed activities £m
Profit for the year	11.804	-0.722	0.335	-1.057	10.747
Actuarial losses on post - employment plans	0.868	0.000	0.000	0.000	0.868
Other comprehensive income	0.656	0.000	0.000	0.000	0.656
Total Comprehensive income for the year	13.328	-0.722	0.335	-1.057	12.271

Differences between Statutory and RAGs Definitions

The difference has occurred in the income statement, and relates to dis-applied capitalisation net of the tax effect.

1C Statement of Financial Position

at 31 March 2018

	Statutory £m	Differences between statutory and RAG definitions £m	Non- appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	599.507	-6.403	1.174	-7.577	591.930
Intangible assets	8.541	0.000	0.000	0.000	8.541
Investments - loans to group companies	68.500	0.000	0.000	0.000	68.500
Retirement benefit assets	33.397	0.000	0.000	0.000	33.397
Total	709.945	-6.403	1.174	-7.577	702.368
Current assets					
Inventories	1.601	0.000	0.028	-0.028	1.573
Trade and other receivables	27.318	0.000	0.011	-0.011	27.307
Cash and cash equivalents	14.945	0.000	0.000	0.000	14.945
Total	43.864	0.000	0.039	-0.039	43.825
Current liabilities					
Trade and other payables	-27.141	0.000	-1.213	1.213	-25.928
Capex creditor	-10.216	0.000	0.000	0.000	-10.216
Borrowings	-0.485	0.000	0.000	0.000	-0.485
Financial instruments	0.000	0.000	0.000	0.000	0.000
Current tax liabilities	-1.335	0.000	0.000	0.000	-1.335
Provisions	-1.700	0.000	0.000	0.000	-1.700
Total	-40.877	0.000	-1.213	1.213	-39.664
Net current assets	2.987	0.000	-1.174	1.174	4.161
Non-Current liabilities					
Borrowings	-325.106	0.000	0.000	0.000	-325.106
Financial instruments	-0.389	0.000	0.000	0.000	-0.389
Deferred income - G&C's	-74.563	0.000	0.000	0.000	-74.563
Preference share capital	-12.500	0.000	0.000	0.000	-12.500
Deferred tax	-57.364	1.255	0.000	1.255	-56.109
Total	-469.922	1.255	0.000	1.255	-468.667
Net assets	243.010	-5.148	0.000	-5.148	237.862
Equity					
Called-up share capital	5.998	0.000	0.000	0.000	5.998
Retained earnings & other reserves	237.012	-5.148	0.000	-5.148	231.864
Total Equity	243.010	-5.148	0.000	-5.148	237.862

The accounts were approved by an authorised Committee of the Board on 13 July 2018 and signed on its behalf by **M Karam**, Chief Executive Officer and **M Axtell**, Chief Financial Officer

Differences between Statutory and RAGs Definitions

The difference is the dis-application of capitalisation of both interest and the administration of new supplies and related deferred tax in accordance with the regulatory accounting guidelines. The Company also has assets held for sale which are already recognised in trade and other receivables per Ofwat guidelines.

1D Statement of cash flows

For the year ended 31 March 2018

	Statutory £m	Differences between statutory and RAG definitions £m	Non- appointed £m	Total adjustments £m	Total appointed activities £m
Operating profit	28.595	-2.177	0.413	-2.590	26.005
Other income	0.000	0.256	0.000	0.256	0.256
Depreciation	26.440	-0.127	0.044	-0.171	26.269
Amortisation - G&C's	-1.763	1.763	0.000	1.763	0.000
Changes in working capital	-1.415	0.000	-0.044	0.044	-1.371
Pension contributions	0.354	0.000	0.000	0.000	0.354
Movement in provisions	0.000	0.000	0.000	0.000	0.000
Profit on sale of fixed assets	-1.887	0.000	0.000	0.000	-1.887
Cash generated from operations	50.324	-0.285	0.413	-0.698	49.626
Net interest paid	-8.828	0.000	0.000	0.000	-8.828
Tax paid	-2.903	0.000	-0.078	0.078	-2.825
Net cash generated from operating activities	38.593	-0.285	0.335	-0.620	37.973
Investing activities					
Capital expenditure	-55.156	0.285	0.000	0.285	-54.871
Grants & Contributions	4.215	0.000	0.000	0.000	4.215
Disposal of fixed assets	9.184	0.000	0.000	0.000	9.184
Other	0.000	0.000	0.000	0.000	0.000
Net cash used in investing activities	-41.757	0.285	0.000	0.285	-41.472
Net cash generated before financing activities	-3.164	0.000	0.335	-0.335	-3.499
Cash flows from financing activities					
Equity dividends paid	-7.267	0.000	-0.335	0.335	-6.932
Net loans received	9.316	0.000	0.000	0.000	9.316
Net cash used in financing activities	2.049	0.000	-0.335	0.335	2.384
Decrease in net cash	-1.115	0.000	0.000	0.000	-1.115

Differences between Statutory and RAGs Definitions

The difference is the dis-application of capitalisation of interest and the administration of new supplies (movements between operating profit, interest paid and capital expenditure), the difference in treatment of net rental income, depreciation on the capitalised interest which has been dis-applied and reclassification of grants and contributions (movements between operating profit and amortisation).

1E Net debt analysis

at 31 March 2018

Interest rate risk profile

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings (excluding preference shares)	109,070	31,420	183,211	323,701
Preference share capital				12,500
Total borrowings				336,201
Cash				-14,945
Short term deposits				0,000
Net Debt				321,256
Gearing				63.96%
Adjusted gearing				61.91%
Full year equivalent nominal interest cost*	4,720	0,387	12,665	17,772
Full year equivalent cash interest payment	4,720	0,387	6,134	11,241
Indicative interest rates				
Indicative weighted average nominal interest rate	4.33%	1.23%	6.91%	5.49%
Indicative weighted average cash interest rate	4.33%	1.23%	3.35%	3.47%
Weighted average years to maturity	8.73	2.08	16.37	12.41
Current Borrowings per table 1C				0.485
Non current Borrowings per table 1C				325.106
Less unamortised net premia				-1.890
Borrowings (excluding preference shares) per table 1E				323.701

* Interest costs and interest rates in table 1E exclude preference dividends.

Table 1E's definition of net debt does not include unamortised net premia or interest rate swaps. This creates a difference with the net debt shown in financial statements, the net debt shown in table 1E and the borrowings in table 1C. This creates different gearing amounts dependent on the net debt definition used.

	£m	Gearing (2 dp)	Gearing (1 dp)
Net debt per the financial statements excluding preference shares	310,933	61.91%	61.9%
Add preference shares	12,500		
Net debt per the financial statements including preference shares	323,433	64.39%	64.4%
Less unamortised net premia	-1,890		
Less interest rate swaps	-0,287		
Net debt per table 1E	321,256	63.96%	64.0%

Gearing is calculated as net debt divided by Regulatory Capital Value (RCV) (£502,270m). The adjusted gearing in the table is calculated in line with Moody's definition, which excludes preference shares from net debt as defined in the financial statements and is expressed as a percentage of RCV.

The allowance included in the determination for the real cost of debt was 2.61%. The indexed linked cash interest cost is 0.74% higher than the determination at 3.35%. To compare the fixed and floating interest rates with the indicative cash interest rates, they need to be adjusted for the year average inflation and because it is much higher this year at 3.74% gives a combined rate in real terms of -0.10% (2.71% lower). The net weighted overall difference between the allowed interest rates and the actual interest rates incurred is 0.76% lower.

Section 1: Regulatory Financial Reporting (continued)

In addition to the interest shown on the previous page, we also pay preference dividends.

1Ai Taxation

The statutory current tax charge for 2017/2018 of £2.8m includes £0.1m adjustment for prior years. A deferred tax charge of £0.8m resulted in a total tax charge of £3.6m for the year.

The regulatory appointed business current tax charge of £2.722m is the same effective tax rate as the standard corporation tax rate and is reconciled in the table below; the main contributing factor to this is that capital allowances claimed in the year are higher than depreciation charged in the accounts. This is due to the difference in speed of capital expenditure write off under corporate tax law compared with accounting rates. No capital allowances have been waived in the year. The revenue, set under the Business Plan is based on when tax is actually paid, therefore reflects that the tax charges would lag the accounting results.

The provision adjustment is in relation to the general element of the bad debt provision which is not allowable from a corporation tax perspective.

Deferred income relates to the write off of contributions in relation to capital assets which for tax are written off in line with the capital allowance rates not the accounting lives.

The pension adjustment reflects the tax treatment of a defined benefit scheme which treats the actual contributions paid as receiving tax relief and all other adjustments as non taxable adjustments.

The capital allowance prior year adjustment reflects the difference in capital allowance treatment from the Statutory 2017 Financial Statements and the submitted tax computation to HMRC; the changes to the tax treatment are identified following a review of the capital expenditure for the year.

The overall current tax charge includes a tax charge of £0.8m in relation to group relief. Group relief is surrendered to Bristol Water plc by Bristol Water Holdings UK Limited. Bristol Water pays for the use of the Group Relief at the prevailing corporation tax rate, which is currently 19%. Full details can be found under the related party transactions note.

Section 1: Regulatory Financial Reporting (continued)

Reconciliation of current tax charge

	£m	Effective tax rate
Profit on ordinary activities before tax	14,104	
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 19%	2,680	19.0%
Effects of:		
Expenses not deductible for tax purposes - 8.75% irredeemable cumulative preference share dividends	0.208	
Impairment of Cheddar Reservoir	0.896	
Utilisation of capital losses not recognised	-0.407	
Capital allowances	-4.539	
Depreciation for the year	3.789	
Provisions	0.025	
Deferred income	0.123	
Pension adjustment	-0.170	
Current tax charge before prior year adjustments	2.605	18.5%
Prior year adjustments:		
Capital allowances	0.117	
Total current tax charge in the income statement	2.722	19.3%

Section 1: Regulatory Financial Reporting (continued)

Reconciliation of current tax to price limit

	£m
Final Determination current tax allowance at outturn prices	1.821
Key differences:	
Impact of prior year adjustments	0.117
Disposal of customer book	0.407
Capital allowances in excess of depreciation charge	0.466
Other adjustments	-0.089
Total Appointed current tax charge	2.722
Non Appointed Business tax adjustments	0.078
Total Statutory current tax charge	2.800

Deferred tax

The deferred tax is calculated at 17% and will continue to change in line with relevant legislation. The Company applies relevant tax laws in an appropriate manner and does not seek to enter into non-commercial transactions to reduce tax.

Comparison of current tax charge to Final Determination allowed tax

The Final Determination allowed tax figure is in 2012/13 prices therefore this has been indexed to reflect the RPI increase between 2012/13 prices and current 2017/18 prices. Our allowed tax for the year in 2012/13 prices was £1.621m which once indexed to nominal prices increases to £1.821m. Capital allowances for the year are higher than the Final Determination due to the changes in capital expenditure profiling.

The allowed tax per the Final Determination for the cumulative period of this AMP so far, is £6.512m. Currently, our total tax for the three years as reported is £6.922m.

Section 2

Price Control and additional segmental reporting

2A Segmental income statement

for the 12 months ended 31 March 2018

	Retail			Wholesale		Total £m
	Household £m	Non-household £m	Water resources £m	Water network + £m	Water total £m	
Revenue - price control	10.488	0.000		100.560	100.560	111.048
Revenue- non price control	0.000	0.000		2.372	2.372	2.372
Operating expenditure	-9.137	-0.655	-11.962	-41.279	-53.241	-63.033
Depreciation						
- tangible fixed assets	-0.079	0.000	-6.228	-17.578	-23.806	-23.885
Amortisation						
- intangible fixed assets	-0.128	0.007	-0.208	-2.055	-2.263	-2.384
Other operating income	0.003	2.176	-0.118	-0.174	-0.292	1.887
Operating profit before recharges	1.147	1.528			23.330	26.005
Recharges from other segments	-0.680	-0.065	0.000	0.000	0.000	-0.745
Recharges to other segments	0.017	0.000	0.057	0.671	0.728	0.745
Operating profit	0.484	1.463			24.058	26.005

Bristol Water exited the non-household retail market on 1 April 2017, therefore the retail non-household revenue is £nil. Operating expenses are still incurred in this sector under the regulatory accounting guidelines, an analysis of which is shown in 2C. £2.143m of the non-household other operating income relates to the sale of the customer book on exiting the market to Water 2 Business Limited, an associated company.

2B Totex analysis

for the 12 months ended 31 March 2018

	Wholesale Water		
	Water Resource £m	Water Network + £m	Total £m
Operating expenditure			
Power	1923	6.800	8.723
Income treated as negative expenditure	-0.003	-0.012	-0.015
Abstraction charges/discharge consents	2.778	0.100	2.878
Bulk supply/Bulk discharge	0.018	0.120	0.138
Other operating expenditure - renewals expensed in the year (infrastructure)	0.263	1.903	2.166
Other operating expenditure - renewals expensed in the year (non-infrastructure)	0.000	0.000	0.000
Other operating expenditure - excluding renewals	5.450	27.547	32.997
Local authority and Cumulo rates	1.287	3.515	4.802
Total operating expenditure excluding third party services	11.716	39.973	51.689
Third party services	0.246	1.306	1.552
Total operating expenditure	11.962	41.279	53.241
Capital expenditure			
Maintaining the long term capability of the assets - infra	0.380	11.200	11.580
Maintaining the long term capability of the assets - non-infra	1.257	13.837	15.094
Other capital expenditure - infra	0.000	17.383	17.383
Other capital expenditure - non-infra	0.572	5.162	5.734
Infrastructure network reinforcement	0.000	5.067	5.067
Total gross capital expenditure (excluding third party)	2.209	52.649	54.858
Third party services	0.000	0.159	0.159
Total gross capital expenditure	2.209	52.808	55.017
Grants and contributions			
Less grants and contributions	0.000	4.215	4.215
Totex	14.171	89.872	104.043
Cash expenditure			
Pension deficit recovery payments	0.000	0.000	0.000
Other cash items	0.000	0.000	0.000
Totex including cash items	14.171	89.872	104.043

2C Operating cost analysis

for the 12 months ended 31 March 2018

	Retail		Total £m
	Household £m	Non- household £m	
Operating expenditure			
Customer Services	2.390	0.167	2.557
Debt management	0.556	0.000	0.556
Doubtful debts	2.912	0.000	2.912
Meter reading	0.290	0.000	0.290
Services to developers		0.360	0.360
Other operating expenditure	2.989	0.128	3.117
Total operating expenditure excluding third party services	9.137	0.655	9.792
Third party services operating expenditure	0.000	0.000	0.000
Total operating expenditure	9.137	0.655	9.792
Depreciation - tangible fixed assets	0.079	0.000	0.079
Amortisation - intangible fixed assets	0.128	-0.007	0.121
Total operating costs	9.344	0.648	9.992
Debt written off	1.961	0.000	1.961

2Ci Retail costs compared to the allowance

The allowed household retail costs were £10.5m and actual costs were £9.3m, £1.2m lower than the allowance.

Household property numbers did not increase as quickly as anticipated, with 489,955 household properties compared to the expected numbers of 493,574. Unmeasured customer numbers were 239,792 versus allowed 208,302 and measured numbers were 250,163 versus allowed 285,272. The net impact of these customer number differences is an expected cost reduction of £0.3m compared to the allowance, as retail costs are lower for unmeasured customers.

The additional costs incurred in serving metered customers were lower than that assumed in the allowance, delivering a £0.8m saving. The retail costs common to both measured and unmeasured customers were also slightly lower than the allowance with an associated saving of £0.1m.

Subsequent to Bristol Water exiting the non-household retail market, the allowance for non-household retail costs is nil. However operating expenses are still incurred in accordance with the regulatory accounting guidelines. £0.285m of other operating expenditure relates to the cost of administering new supplies with another £0.075m being further services to developers. The remainder relates to network customer enquiries and complaints in customer services, and an allocation of general and support expenditure and other operating expenditure.

2D Historic cost analysis of tangible fixed assets

	Wholesale		Retail		
	Water Resources £m	Water Network + £m	Household £m	Non- Household £m	Total £m
Cost					
At 1 April 2017	60.821	738.527	1.456	0.122	800.926
Disposals	-0.307	-3.480	0.000	0.043	-3.744
Additions	1.693	47.614	0.093	0.000	49.400
Adjustments	0.431	-0.205	-0.061	-0.165	0.000
Assets adopted at nil cost	0.000	0.000	0.000	0.000	0.000
At 31 March 2018	62.638	782.456	1.488	0.000	846.582
Depreciation					
At 1 April 2017	-15.840	-217.256	-1.078	-0.002	-234.176
Disposals	0.186	3.236	0.000	-0.013	3.409
Adjustments	-0.129	0.062	0.052	0.015	0.000
Charge for the year	-6.228	-17.578	-0.079	0.000	-23.885
At 31 March 2018	-22.011	-231.536	-1.105	0.000	-254.652
Net book amount at 31 March 2018	40.627	550.920	0.383	0.000	591.930
Net book amount at 1 April 2017	44.981	521.271	0.378	0.120	566.750
Depreciation charge for the year					
Principal services	-6.223	-17.471	-0.079	0.000	-23.773
Third party services	-0.005	-0.107	0.000	0.000	-0.112
Total	-6.228	-17.578	-0.079	0.000	-23.885

2E Analysis of capital contributions and land sales

for the 12 months ended 31 March 2018

	Wholesale			Total £m
	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	
Grants and contributions - water				
Connection charges (s45)	0.000	1.950	0.000	1.950
Infrastructure charge receipts (s146)	0.000	1.803	0.000	1.803
Requisitioned mains (s43, s55 & s56)	0.000	0.461	0.000	0.461
Other Contributions (price control)	0.000	0.001	0.000	0.001
Diversions (s185)	0.000	0.000	0.000	0.000
Other Contributions (non-price control)	0.000	0.000	0.000	0.000
Total	0.000	4.215	0.000	4.215
Value of adopted assets		0.000		0.000
Movements in capitalised grants and contributions				
Brought forward				73.811
Capitalised in year				4.215
Amortisation (in income statement)				-1.763
Carried forward				76.263

2F Household - revenues by customer type

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average household retail revenue per customer £
Unmeasured water only customer	42.431	4.590	47.021	239.792	19
Measured water only customer	33.643	5.898	39.541	250.163	24
Total	76.074	10.488	86.562	489.955	21

2G Non-household water - revenues by customer type

This table is not applicable to Bristol Water plc as the Company has exited the non-household retail market. The wholesale revenue for the year ended 31 March 2018 was £24.486m as shown in table 2I.

Table 2H

This is not applicable to Bristol Water plc

21 Revenue analysis & wholesale control reconciliation

for the 12 months ended 31 March 2018

	Household £m	Non- household £m	Total £m
Wholesale charge - water			
Unmeasured	42.431	0.364	42.795
Measured	33.643	24.025	57.668
Third party revenue	0.000	0.097	0.097
Wholesale Total	76.074	24.486	100.560
Retail revenue			
Unmeasured	4.590	0.000	4.590
Measured	5.898	0.000	5.898
Third party revenue	0.000	0.000	0.000
Retail total	10.488	0.000	10.488
Third party revenue - non-price control			
Bulk Supplies			1.051
Other third party revenue			1.321
Principal services - non-price control			
Other appointed revenue			0.000
Total appointed revenue			113.420
Wholesale revenue governed by price control			100.560
Grants & contributions			4.215
Total revenue governed by wholesale price control			104.775
Amount assumed in wholesale determination			104.202
Adjustment for in-period ODI revenue			0.000
Adjustment for WRFM			1.600
Total assumed revenue			105.802
Difference			-1.027

2Ii Comparison with Final Determination

The total revenue assumed in the wholesale determination for 2015/16 was £100.247m in 2014/15 prices. Inflating this figure by November 2014 RPI of 2.0% produced a calculated revenue expectation of £102.235m. This figure was then adjusted by a K Factor for -1.8% and November 2015 RPI of 1.1% to set a revenue allowance of £101.469m for 2016/17. A further adjustment of 2.2% for November 2016 RPI inflation and +0.5% K factor was applied, to provide an amount assumed in the determination of £104.202m for 2017/18. Our 2015/16 wholesale revenue showed an under-recovery of £2.532m. In order to mitigate the impact of this on customers a management decision was taken to limit the level of recovery applied to 2017/18 tariffs to £1.600m. This figure also included the impact of £0.710m reduction in revenue resulting from the 2014/15 blind year adjustment, spread evenly over the three years 2017/18 - 2019/20. As a result, the total assumed revenue for 2017/18 was £105.802m.

		2015/16	2016/17	2017/18
Initial revenue allowance (14/15 prices)	£m	100.247		
K Factor	%	0.0%	-1.8%	0.5%
RPI	%	2.0%	1.1%	2.2%
RPI+K Increase	%	2.0%	-0.7%	2.7%
Nominal Allowed Revenues (line 2I.22)	£m	102.235	101.469	104.202
Adjusted Allowed Revenues	£m			106.676
Revenue recovery included in tariffs (line 2I.24)	£m			1.600
Total Assumed Revenue (line 2I.25)	£m	102.235	101.469	105.802
Actual Revenue (line 2I.21)	£m	99.703	99.212	104.775
Difference against (adjusted) allowance	£m	-2.532	-2.246	-1.901
Difference against Assumed Revenue (line 2I.26)	£m			-1.027

Wholesale Revenue received in 2017/18 as per table 2I is £104.775m, a difference of £1.027m (1.0%) against the allowed revenue from the FD as adjusted for inflation and revenue correction. This difference is below the threshold of 2% allowed by the Wholesale Revenue Forecasting Incentive Mechanism. We anticipate this difference to be fully recoverable in 2019/20 tariffs, subject to considerations on the overall bill impact on customers.

The principal reasons for outturn revenue being lower than the allowance are:

- Contributions from developers being £0.785m lower than forecast, due to lower activity levels
- Revenue received from a New Appointment & Variation (NAV) water supplier (£0.126m) is recognised as a bulk supply, rather than as non-household as assumed when setting tariffs
- An increase of £1.600m from the revenue correction mechanism offset by revenue not received from customers awaiting meter installations

The number of household customers increased by 1.0% due to new connections, in line with expectations. The number of non-household customers was largely unchanged on aggregate.

The number of metered households increased by 15,425 (6.6%) due to our selective change of occupier metering programme, as well as meter optants and new connections.

Void properties increased by 6% in the year.

Section 2: Price Control and additional segmental reporting (continued)

2J Infrastructure network costs

for the 12 months ended 31 March 2018

	Network reinforcement capex £m	On site / site specific capex £m
Wholesale water network + (treated water distribution)		
Distribution and trunk mains	4.497	4.240
Pumping and storage facilities	0.570	0.000
Other	0.000	0.000
Total	5.067	4.240

Section 3

Performance Summary

3A Outcome performance table

Performance commitment	2016-17 performance level - actual	2017-18 performance level - actual	2017-18 CPL ¹ met?	2017-18 out performance payment or under performance penalty (in-period ODI)	2017-18 out performance payment or under performance penalty (ODIs payable at the end of AMP6)	31 March 2020 forecast - total AMP6 outperformance payment or under-performance penalty ²
A1: Unplanned customer minutes lost	131	73.7	No	-	Underperformance penalty -£0.7389m	Underperformance penalty -£1.4778m
A2: Asset reliability - infrastructure	Stable	Marginal	No	-	Underperformance penalty deadband	Underperformance penalty -£0.6850m
A3: Asset reliability - non-infrastructure	Stable	Stable	Yes	-	-	
B1: Population in centres >25,000 at risk from asset failure	288,589	9,063	Yes	-	-	
C1: Security of supply index (SOSI)	100	100	Yes			
C2: Hosepipe ban frequency	31	31	Yes	-	-	
D1: Mean zonal compliance (MZC)	99.97%	99.93%	No	-	Underperformance penalty -£0.2840m	Underperformance penalty -£0.5680
E1: Negative water quality contacts	2,162	1,711	Yes	-	Outperformance payment deadband	Outperformance payment deadband
F1: Leakage	474	49.6	No	-	Underperformance penalty -£1.0824m	Underperformance penalty -£5.5924
G1: Meter penetration	49.3% ³	52.7%	No	-	Underperformance penalty -£0.1520m	Underperformance penalty -£0.5740

1 CPL stands for committed performance level, which is colloquially known as a target.

2 All penalty and reward figures in this section are expressed in 2012/13 RPI prices; the price based used for the PR14 final determination.

3 Corrected from 49.6% as originally reported in our 2016/17 Annual Performance Report.

3A Outcome performance table (continued)

Performance commitment	2016-17 performance level - actual	2017-18 performance level - actual	2017-18 CPL ¹ met?	2017-18 out performance payment or under performance penalty (in-period ODI's)	2017-18 out performance payment or under performance penalty (ODIs payable at the end of AMP6)	31 March 2020 forecast - total AMP6 outperformance payment or under performance penalty ²
H1: Total carbon emissions	32	28	No			
H2: Raw water quality of sources	Deteriorating	-1	Yes			
H3: Biodiversity index	Improving	17657	Yes			
H4: Waste disposal compliance	96%	98%	No			
G2: Per capita consumption (PCC), measured as litres per head per day (l/h/d)	1441	1445	No			
I1: Percentage of customers in water poverty	0.9%	0.0%	Yes			
J1: Service incentive mechanism (SIM)	85.9	83.38	No	-	-.4	-
J2: General satisfaction from surveys	86%	87%	No			
J3: Value for money	72%	69%	No			
K1: Ease of contact from surveys	94.4%	93.1%	No			
L1: Negative billing contacts	3096	2,300	Yes			

¹For SIM performance, although there is a financial incentive, these cells have been intentionally left blank as Ofwat will determine the outcome based on all companies' performance throughout 2015-2020 and make a decision on any financial underperformance penalty or outperformance payment at the end of the reporting period.

3B Sub-measure performance table

for 12 months ended 31 March 2018

PC / sub-measure	2016-17 performance level - actual	2017-18 performance level - actual	2017-18 CPL met?
A2: Asset reliability - infrastructure	Stable	Marginal	No
Total bursts (number)	1,034	1,222	No
DG2: low pressure (number of properties)	94	65	Yes
A3: Asset reliability - non-infrastructure	Stable	Stable	Yes
Turbidity performance at treatment works (number)	0	0	Yes
Unplanned maintenance events (number)	2,870	3,279	Yes

A1 Unplanned Customer Minutes Lost**Definition**

Keeping water flowing is an essential part of our role as a water company; we know from talking to our customers that they value avoiding interruptions, particularly when they last a long time and are unexpected. This performance commitment is measured as the total number of minutes that customers have been without a supply of water in the year, through unplanned interruptions, divided by the total number of properties served by the company in the year.

Summary

The performance commitment has not been met for 2017/18 resulting in a penalty of £0.7389m this year. The average amount of minutes lost per property per year (at 73.7 minutes) was significantly affected by an exceptional burst event at Willsbridge in July 2017, which we explained in a detailed case study in our mid-year performance report.

A1: Unplanned Customer Minutes Lost - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (Mins/ property/ year)	13.4	13.1	12.8	12.5	12.2	
Actual Performance	15.5	13.1	73.7	12.5	12.2	
PC met?	No	Yes	No	Yes	Yes	
Incentive Reward/Penalty £m	-0.7389	0	-0.7389	0	0	-1.4778



Data point for 2017/18 not to scale (performance at 73.7mins)

Explanation of ODI

In order to calculate any reward or penalty the ODI performance is compared against the target performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. For average minutes lost, the incentive reward rate is £0.5097m and the penalty is £0.7389m per minute lost per property per year. There is a deadband where performance adjustments do not apply, as well as a cap on the total reward or penalty.

ODI payments for this measure will be taken as a revenue adjustment, which will have an impact on customer bills during 2020-25.

Commentary on Performance

The aim of this performance commitment is to minimise interruptions. Regrettably, our performance level for this year is 73.7 minutes (compared to the mid-year performance figure of 65.04 minutes lost we reported in November 2017). Our performance has significantly exceeded our year-end target of 12.8 minutes lost per customer, which is primarily due to a number of exceptional incidents that took place over the last 12 months;

in particular the Willsbridge burst in May 2017 caused an interruption to 35,000 customers and added 54.74 minutes to our performance figure. Further information on the Willsbridge burst was included in our Mid-Year Performance Report which can be found at <https://www.bristolwater.co.uk/about-us/performance/>. Other significant interruptions occurred at Sea Mills (4.55 minutes), Withywood (1.38 minutes) and Meare (0.89 minutes). In addition, this year we encountered water supply issues during the freeze and thaw surrounding the 'Beast from the East' severe weather in March¹. We have investigated the root cause of the major incidents in order to identify other locations where similar events might be likely to occur, so that we can put measures in place to try to prevent these bursts from happening, and take steps to minimise the impact on our customers if they do.

Without the impact of the these exceptional events, we calculate our annual performance would have been 12.96 minutes lost, which would have exceeded the target of 12.8 minutes by 0.16 minutes. We have taken a number of operational initiatives to improve our response and recovery times, including

new tools and techniques to allow "live" isolations of mains following burst mains and rapid re-zoning of the network.

Customers can compare our performance on supply interruptions against other companies in the industry at <https://discoverwater.co.uk/loss-of-supply>.

Forecasting

We are forecasting to meet our targets for the final two years of this AMP with no further financial incentive accrued. This is because our performance tends to only be impacted by exceptional events, which do not happen in most years. We therefore forecast a total incentive penalty of £1.4778m, based on the maximum penalties incurred in 2015/16 and 2017/18.

¹The expansion and contraction of our pipes relating to freezing temperatures followed by rapid thawing can cause pipes to burst.

A2 Asset reliability - infrastructure

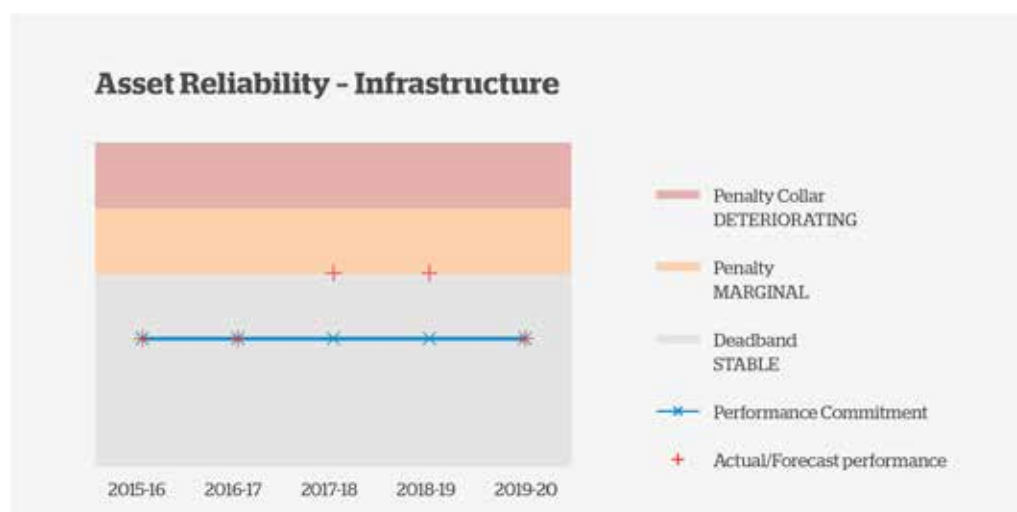
Definition

This performance commitment consists of two sub-indicators - the total number of bursts in each year and the number of properties assessed to be at risk of low pressure. Our performance against these two sub-indicators is used to assess our capability of delivering our customers' expected level of service both now and in the future.

Summary

The overall marginal assessment reflects the exceptional number of bursts we experienced in 2017/18. The marginal assessment means that the performance commitment has not been met for 2017/18; however no penalty is due for this year as the incentive framework provides a deadband of one 'marginal' assessment over the 2015-20 reporting period. This assessment results from the exceptional freeze/thaw weather experienced in March 2018. As our methodology does not exclude severe weather, we have reported a marginal serviceability assessment. However we do not believe this reflects the underlying health of our assets. Our methodology for assessing asset reliability performance requires that an improvement is demonstrated over more than one year in order to revert to a stable assessment. This means that the assessment cannot be better than 'marginal' next year, and therefore this will result in a penalty for 2018/19.

A2: Asset reliability - infrastructure - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (improving/ stable/ marginal/ deteriorating)	stable	stable	stable	stable	stable	
Actual Performance	stable	stable	marginal	marginal	stable	
PC met?	Yes	Yes	No	No	Yes	
Incentive Penalty £m	0	0	0	-0.685	0	-0.685



Explanation of ODI

There is no potential for the Company to earn rewards against this performance commitment as it is intended to incentivise long-term asset health of our pipes.

In order to calculate any penalty, the ODI performance is compared against the target performance. If the performance falls within the penalty-zone (a marginal assessment) for a second year then we apply the incentive rate of £0.685m. If the performance falls within the penalty-collar-zone (a deteriorating assessment) then we apply the incentive rate of £2.1054m.

The ODI penalty for this measure will be taken as a Regulatory Capital Value (RCV) adjustment, which will have an impact on our customers' bills but over a longer period of time (compared to revenue adjustments). This is because penalty adjustments to RCV take place over a much longer time-period, typically more than 20 years to have a full financial effect on customer bills. This form of penalty is appropriate because this performance commitment relates to the long-term health of our assets, which reflects investment over a significant amount of time.

Commentary on Performance

Ensuring that we maintain a reliable supply of water is a key company outcome. We are aiming to achieve this at the same time as having to meet the increased water demand of a growing population and the risks associated with an ageing infrastructure and assets. We currently invest around £50m each year to maintain and improve water services and infrastructure.

Bursts

This is the total number of burst pipes recorded in the year. A burst pipe is the most common cause of loss of water supply.

Burst numbers up to February 2018, remained at a similar level to those

reported in 2016/17. March 2018 was an exceptional month following a rapid thaw after several days of temperatures falling to -6 degrees Celsius. Temperatures dropped below freezing on February 22nd, remained below until and including March 3rd with 2 days below -6 degrees Celsius. On March 4th, temperatures rose to +10 degrees Celsius and remained above 10 degrees Celsius until 16th March.

As a result of the adverse weather conditions during late February/early March, a significant impact on the outbreak of burst mains was seen in a relatively short period. This resulted in over 250 burst mains in March 2018, of which more than 70% occurred in the first week alone. As a comparison, the 5-year average for burst mains in the month of March is 68.

Without these additional bursts due to the severe weather, we estimate that mains bursts would have been at 1,043 (rather than the 1,222 total for 2017/18) and at a similar level to 2016/17 (1,034). This would have meant we would have been under our upper threshold limit for bursts and would have therefore met our Asset Reliability (Infrastructure) performance commitment for 2017/18.

Customers can compare our performance on bursts against other companies in the industry at <https://discoverwater.co.uk/loss-of-supply>.

Low Pressure

Water pressure determines the water flow from customer taps. This is measured as the total number of properties in our area of water supply which, at the end of the year, have received, and are likely to continue to receive, a pressure or flow below the reference level. Our standard of service for mains water pressure is ten metres head (or 1 bar) at the property boundary of a home or business. This normally means that in our customers' home or business, water pressure should be strong enough to fill a 4.5 litre (one

gallon) container in 30 seconds from a ground floor tap. This is the minimum level of pressure we expect each house or business to receive, although pressure can be higher. It is unlikely that customers will experience water pressure below the minimum standard and we have successfully reduced the number of properties at risk, from 94 last year to 65 this year, which is below our target for the year.

Customers can compare our performance on low water pressure against other companies in the industry at <https://discoverwater.co.uk/water-pressure>.

Forecasting

The methodology for assessment of this measure means that having been assessed as marginal for 2017/18, a second marginal assessment in 2018/19 is unavoidable, regardless of the number of bursts. We are however forecasting to meet our target for the final year of this AMP, which would result in a stable assessment. Given average weather conditions for 2018/19 it is anticipated that the burst rate should drop. The expectation is that the exceptional freeze/thaw conditions in March this year will have exposed the majority of weak points on the network. We therefore forecast a penalty of £685k, based on a marginal assessment in 2017/18 and 2018/19.

A3 Asset reliability - non-infrastructure

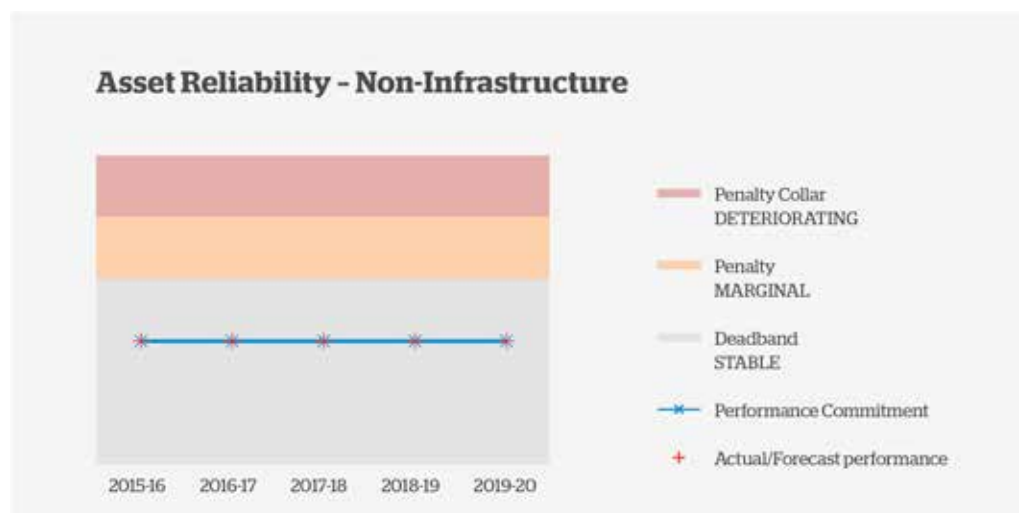
Definition

This performance commitment consists of two sub-indicators - turbidity at water treatment works and unplanned maintenance events. Our performance against these two sub-indicators is used to assess our capability of delivering customers expected level of service both now and in the future.

Summary

As we have met our target for the turbidity sub-indicator and outperformed on the unplanned maintenance events sub-indicator, we have met our target for this performance commitment, which has been assessed as 'stable' for the third consecutive year of this AMP.

A3: Asset reliability - non-infrastructure - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (improving/ stable/ marginal/ deteriorating)	stable	stable	stable	stable	stable	
Actual Performance	stable	stable	stable	stable	stable	
PC met?	Yes	Yes	Yes	Yes	Yes	
Incentive Penalty £m	0	0	0	0	0	0



Explanation of ODI

There is no potential for the Company to earn rewards against this performance commitment as it is intended to incentivise the long-term asset health of our treatment works and equipment.

In order to calculate any penalty, the ODI performance is compared against the target performance. If the performance falls within the penalty-zone (a marginal assessment) for a second year then we apply the penalty incentive rate of £0.706m. If the performance falls within the penalty-collar-zone (a deteriorating assessment) then we apply the penalty incentive rate of £2.119m.

The ODI penalty must be taken as a Regulatory Capital Value (RCV) adjustment, which will have an impact on our customers' bills but over a longer period of time (compared to revenue adjustments). This is because penalty adjustments to RCV take place over a much longer time-period, typically more than 20 years to have a full financial effect on customer bills. This form of penalty is appropriate because this performance commitment relates to the long-term health of our assets, which reflects investment over a significant amount of time.

Commentary on Performance

Turbidity

Turbidity is a measure of the cloudiness of water, normally caused by suspended minerals. It is an important water quality control parameter at our water treatment works. Factors such as turbidity affect the effectiveness of disinfection. This metric enables the company to consider the following:

- the use of turbidity as a measure to provide assurance of the optimal operation of filter performance, where filtration is used to address identified risks associated with chlorine resistant pathogens in the source water;
- the impact of turbidity on the

efficiency of disinfection processes;

- the effect that turbidity has on the aesthetics of the treated water.

We have a long track record of achieving zero turbidity events and for 2017/18 we have again met our target, which means we have again been successful in ensuring consistently good treated water enters our supply system.

Unplanned Maintenance Events

This metric records the total number of unplanned maintenance events occurring throughout the year, as a result of equipment failure or reduced asset performance.

A rising trend in the indicator will indicate deterioration, a reducing trend will indicate improvement. We aim for a stable trend as this indicates long-term health of our assets. We recorded 3,279 unplanned maintenance events during 2017/18, which is better than our target of 3,976.

Forecasting

We are forecasting to meet our targets for the final two years of this AMP, given our track record of stable performance and continued investment in the reliability of our assets.

B1 Population in centres >25,000 at risk from asset failure

Definition

The Company aims to provide a resilient supply of water to our customers, all year round. A resilient supply means that we are able to cope with extreme or unusual events, and this is measured by the number of people at risk from the failure of a single source above ground asset, such as a treatment works is unable to operate or a source is contaminated (in supply areas of more than 25,000 consumers).

Summary

The successful delivery of the Southern Resilience Scheme in March 2018 has significantly reduced the number of consumers at risk from 288,589 to 9,063 across our supply area including Weston-Super-Mare, Cheddar, Burnham-on-Sea and Glastonbury and the northern part of Bristol. The timetable for completing the project was in line for our target for this year.

B1: Population in centres >25,000 at risk from asset failure - AMP6 Performance

Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (No. of people)	288,589	288,589	9,063	9,063	9,063	
Actual Performance	288,589	288,589	9,063	9,063	9,063	
PC met?	Yes	Yes	Yes	Yes	Yes	
Incentive Reward/Penalty £m	0	0	0	0	0	0



Explanation of ODI

As this performance commitment relates to one specific scheme, the reward incentive changes before and after the delivery of the Southern Resilience Scheme, as is demonstrated in the graphic above. As the Scheme has now been delivered on time, the reward rate is dependent on removing the remainder of the population at risk (in the Glastonbury and Street area) from this year onwards. If we had not delivered the Scheme by this year, we would have incurred a penalty of £2.436m for this year.

Any ODI payment for this measure would have been taken as a revenue adjustment, which would have had an impact on our customer bills between 2020 and 2025.

Commentary on Performance

The Southern Resilience Scheme was a new £27m water infrastructure project that provides improved security of supply to over 280,000 customers across our supply area, including Weston-super-Mare, Cheddar, Burnham and Glastonbury and the northern part of Bristol. We have reduced the number of consumers in population centres of over 25,000 people at risk from 288,589 to 9,063, by undertaking this major scheme to construct 30 kilometres of new mains to reinforce and support our southern supply area.

Site works started in September 2016 and pipe-laying commenced in December 2016. After installing 7.1 km of pipe in 2016/17, the remaining 23 km of pipe was installed during 2017/18 despite some very challenging circumstances. In addition to the pipe installation, a new pumping station was constructed and commissioned at Cheddar Treatment Works.

This new network gives us increased flexibility and will allow us to move water from our northern sources into our southern region in the event of a loss of supply, or water back up to Bristol if we

lose our northern supply. The scheme uses gravity, rather than pumping, to get water from Barrow Gurney to Cheddar, significantly reducing energy usage. Put simply, it means if there is an emergency we can get you back in water much, much quicker.

As well as this it will help us meet the increase in demand for water over the coming years. Weston-Super-Mare is one of Europe's fastest growing towns, and so we need to supply all of the new residents and businesses coming to the area.

We used our innovative, Biodiversity Index approach to ensure that the work left a positive impact on the natural environment, with no net loss in biodiversity construction ends. We worked in partnership with Natural England to plan and deliver wildlife mitigation and compensation.

The full project was completed on 30 March 2018. Further information on the Southern Resilience Scheme can be found at <https://www.bristolwater.co.uk/help-support/work-in-your-area/southern-resilience-scheme/>.

Forecasting

We plan to shift our resilience focus to other areas and we have therefore forecast to meet our targets for the final two years of this AMP6.

C1 Security of supply index (SOSI)

Definition

The 'security of supply index' (SOSI), calculated as an index out of 100, takes into account the balance between supply of water that the Company has available and the demand from our customers, calculated as the proportion of dry weather demand that can be met by the water available for use. The index takes into account that there may be restriction on water use at certain points in time during dry years. As a result it is possible to have a 100 security of supply index at the same time as requiring water restrictions, such as hosepipe bans.

Summary

We have met our target for this performance commitment, with an index of 100 for the third consecutive year of this AMP.

C1: Security of supply index (SOSI) - AM6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (SOSI score)	100	100	100	100	100	
Actual Performance	100	100	100	100	100	
PC met?	Yes	Yes	Yes	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customer bill level.

Commentary on Performance

One of our customers' most important requirements is an unrestricted water supply and we have a duty to maintain the security of our water supplies. Our performance of this is measured by our level of service on the frequency of supply restrictions during periods of water shortages, measured using the 'security of supply index' (SOSI).

If a score of less than 100 is calculated, this would indicate that there could have been a higher risk of water use restrictions for our customers that year. We have reported a SOSI value of 100 for 2017/18 (and every year to date in AMP6), indicating our customers can expect a sufficient supply of water, with no restrictions.

Forecasting

We are forecasting to meet our targets for the final two years of this AMP. To mitigate any risk to SOSI deteriorating in future years due to population growth or increased per capita consumption, the company is taking action to reduce demand for water as well making improvements water supply assets to increase water available for use.

C2 Hosepipe ban frequency

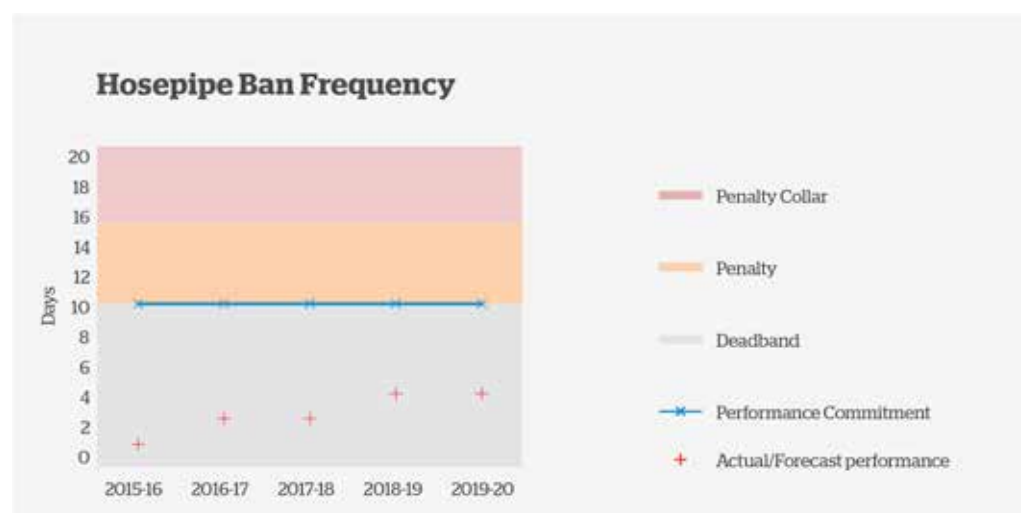
Definition

This measures the likelihood in any one year that temporary usage restrictions, such as on the use of hosepipes, will be implemented.

Summary

We have outperformed our target for this performance commitment for the third consecutive year of this AMP.

C2: Hosepipe ban frequency - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (No. of days)	10.2	10.2	10.2	10.2	10.2	
Actual Performance	15	31	31	46	46	
PC met?	Yes	Yes	Yes	Yes	Yes	
Incentive Penalty £m	0	0	0	0	0	0



Explanation of ODI

There is no reward due to the company for this performance commitment as customers expect us to manage the supply of water available to them without restrictions. A penalty of £0.043m would be due per day at risk of restriction over the 10.2 day target.

Any ODI penalty will be taken as a revenue adjustment, which will have an impact on our bills in 2020-25.

Commentary on Performance

If a Temporary Usage Ban were to be introduced, our customers would be

restricted from undertaking a number of activities, such as watering their garden, cleaning their cars or watering their plants, or using a hosepipe. In order to prevent such events, we monitor the water resource situation throughout the year and across our operating area as part of our day to day operations. This monitoring ensures that we can identify when a drought is developing and ensures steps can be taken early to help reduce the demand for water and secure water supplies. We use drought indicators to identify when a drought is starting and if actions should be implemented. We monitor rainfall, reservoir storage,

groundwater levels, river flow and other indicators such as demand for water to identify when we need to take action. We have for the third consecutive year, reported a hosepipe ban risk frequency that is better than our target. It has been 28 years since we last introduced a hosepipe ban (in 1990) and we have continually outperformed our target for this measure.

Forecasting

We are forecasting to outperform our target for this performance commitment for the final two years of this AMP and therefore no penalty will be applicable.

D1 Mean zonal compliance (MZC)

Definition

Drinking water must meet strict standards that ensure it is safe to drink and the quality is acceptable to consumers. We measure this via Mean Zonal Compliance (MZC), a measure that the Drinking Water Inspectorate (DWI) uses to assess overall water quality compliance. It is based on 39 individual parameters that cover various aspects of risk to public health.

Summary

The performance commitment has not been met for 2017/18 resulting in a penalty of £0.284m this year.

D1: Mean zonal compliance (MZC) - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	99.96	99.96	100	100	100	
Actual Performance	99.93	99.97	99.93	99.96	99.96	
PC met?	No	Yes	No	No	No	
Incentive Penalty £m	-0.284	0	-0.284	0	0	-0.568



Explanation of ODI

There is no reward due to the company for this performance commitment as companies are expected to comply with their legal drinking water quality obligations at all times. In order to calculate any penalty the ODI performance is compared against the target performance. If the MZC score falls within the penalty-zone then the incentive is calculated based on a penalty rate of £0.284m for 0.01%.

The ODI penalty will be taken as a revenue adjustment, which will have an impact on customer' bills from 2020-25.

Commentary on Performance

Drinking water must meet strict standards that ensure it is safe to drink and the quality is acceptable to consumers. 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. The sampling schedule is aligned to a sophisticated computer-controlled programme so that water quality is checked right from source to customers' taps.

During 2017 our random compliance sampling at customer properties identified four nickel failures associated with internal plumbing deficiencies (nickel is used in the chromium plating process for taps and can leach into the water supply). Although these failures were solely attributable to plumbing issues within customer properties, they had the effect of reducing our MZC figure from 99.98% down to 99.93%.

The DWI is replacing Mean Zonal Compliance as the preferred measure of water quality with the Compliance Risk Index (CRI). CRI takes into account how serious the failures are. During 2017 we had our best ever CRI score of 0.032. We expect this to be one of the best water quality performance levels in the industry. The Company will report on

CRI, along with the rest of the industry, from 2020.

Despite the isolated plumbing issues noted above, the annual survey we carry out shows that customers think we perform well on water quality. Customers can compare our performance on water quality standards against other companies in the industry at <https://discoverwater.co.uk/quality>.

Forecasting

We are forecasting to underperform against our target for this performance commitment for the final two years of this AMP as the target of 100% is very difficult to achieve in practice; however as we forecast to be within the deadband range, we are not forecasting any further penalties for this performance commitment. Therefore, a total penalty of £0.568m is forecast, based on penalties incurred in 2015/16 and 2017/18.

E1 Negative water quality contacts

Definition

The number of customer complaints we receive each year in relation to the taste, odour and appearance of water supplied.

Summary

We have outperformed our committed performance level for this year; there has been an improving trend every year so far this AMP.

E1: Negative water quality contacts - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (No. of contacts per year)	2422	2409	2322	2275	2221	
Actual Performance	2329	2162	1711	2275	2221	
PC met?	Yes	Yes	Yes	Yes	Yes	
Incentive Reward/Penalty £m	0	0	0	0	0	0



Explanation of ODI

In order to calculate any reward or penalty, the ODI performance is compared against the target performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. For negative water quality contacts the incentive penalty rate is £0.005895m per contact and the reward is £0.00123m per contact.

Although there are no incentive payments applicable for this performance commitment to date, any ODI payment must be taken as a revenue adjustment, which will have an impact on customer bills over 2020-2025.

Commentary on Performance

We received 1,711 negative water quality contacts during 2017, which is better than our target of 2,322. There has been a reducing trend in the number of contacts we have received over the last few years.

Our performance has benefitted from our trunk mains relining/replacement programme, which started in 2015, and the associated systematic flushing of the distribution mains supplied from these trunk mains. The renovation of the trunk mains reduced the amount of corrosion debris seeding our network and the associated systematic flushing programme has removed historic corrosion debris, both of which cause discoloured water. Consequently, we are getting a cleaner network and a much-reduced risk of discoloured water contacts when there is any disturbance to water flows caused by burst mains.

We know that the taste and appearance of our customers' tap water is something which they value highly. Customers can compare our performance on appearance contacts against other companies in the industry at <https://discoverwater.co.uk/colour> and our performance on taste/odour contacts against other companies in the industry at <https://discoverwater.co.uk/taste>.

Forecasting

We are forecasting to at least meet our performance commitments for the final two years for this AMP. This would mean that overall we would be within the outperformance deadband. Achieving an outperformance payment would be unlikely, as this has been set at around the industry upper quartile level; and the nature of our supply area means that it will take a number of years of infrastructure improvement to reach this level. However, we are making significant progress without this requiring a significant increase in customer bills, which would result from accelerating replacement of pipes that remain in good condition.

F1 Leakage

Definition

Water is supplied to customers' homes through thousands of kilometres of underground pipes. For various reasons, pipes can leak and some water is lost between the treatment works and the properties supplied. This measure is the amount of water that enters the distribution system but is not delivered to customers because it is lost from either the company's or customers' pipes.

Approach to Dual Reporting

In our 2016/17 reporting we identified improvements to the technical data which supported our leakage calculation, which would reduce the reported figure. Following engagement with Ofwat and the publication of a corrigendum to our PR14 determination, we have agreed to dual report our leakage performance, to provide the figures that include and exclude the impact of technical data improvements.

The Bristol Water Board has made a new commitment this year to ensure that customer bills reflect actual reductions in leakage, rather than the company benefitting technical data changes. During 2017/18 we agreed with Ofwat a number of changes to how we report our performance commitments, which are reflected in this report. Given that leakage is one of our customers' top priorities and a measure which attracts significant focus from other stakeholders, we would like to make it clear that our leakage ODIs for 2015-20 will be calculated on the original basis without taking into account any changes in supporting assumptions which may improve our performance.

The technical improvements noted above relate to aligning the measurement of one of the components of leakage measurement, non-household night use (NHHNU). In 2016/17 we identified that the assumptions for the NHHNU component had not been updated since 2007 i.e. the outdated assumptions for this component was providing an inaccurate view of our actual leakage data. We have carried out an updated assessment, which has brought the Company's sampling for this component in line with best practise across the industry.

For the purposes of this document, the figure that excludes the impact of technical data improvements is referred to as "PR14 ODI leakage", and the figure that includes the impact of technical data improvements is referred to as "current leakage".

Summary of performance

At PR14 we set ourselves challenging leakage targets; to reduce leakage by 12% between 2015 and 2020. The combination of targeted investment in our network, improved monitoring and control, and our proactive approach to leakage management and leakage reduction initiatives, such as pressure management, continues to see us actively working to reduce leakage levels further.

The PR14 ODI leakage level for 2017/18 was 49.6 MI/day. This is above the annual target of 45.0 MI/day. Current leakage was 46.6 MI/day, also above the annual target.

F1: Leakage (PR14 ODI Leakage) - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (MI/d) (annual)	48.0	47.0	45.0	44.0	43.0	
Actual PR14 ODI leakage (annual)	44.2	47.4	49.6	46.5	45.5	
Performance Commitment (averaged)	48.0	47.5	46.7	46.0	45.4	
Actual PR14 ODI leakage (averaged)	44.2	45.8	47.1	46.9	46.6	
PC met?	Yes	No	No	No	No	
Incentive Reward/Penalty £m	0	0	-1.0824	-2.255	-2.255	-5.592



The combination of targeted investment in our network, improved monitoring and control, and our proactive approach to leakage management and leakage reduction initiatives, such as pressure management, continues to see us actively working to reduce leakage levels further.

For 2017/18, leakage levels started higher than anticipated due to additional winter leakage in January 2017. During the summer period the leakage levels remained at higher than desired levels, and throughout the year we deployed additional leakage detection and fixing resources. The performance of our contractors meant that our efforts to reduce leakage were not as successful as we hoped. We saw an unusual increase in the number of small leakage events, such as at customer stop-taps, and responding to this required a change of approach. Leakage levels significantly increased in March 2018 due to initial cold and snowy weather conditions in the first couple of days of the month, which had an impact on response times and burst mains, followed by a rapid thaw period, which had a significant impact on the outbreak of burst mains in a relatively short period. A temperature swing of 16 degree Celsius in less than 48 hours was significantly greater than experienced in other cold periods.

Towards the end of 2017/18 we began to see benefits from our deployment of additional resource and the impact of improving the effectiveness of our leakage response. Excluding our estimate of a 1.7Ml/day impact of the cold weather in March 2018, our actual current leakage performance after technical data adjustments improves from 46.6Ml/day to 44.9Ml/day. This would have been in line with our target of 45Ml/day.

Customers can compare our performance on leakage against other companies in the industry at <https://discoverwater.co.uk/leaking-pipes>.

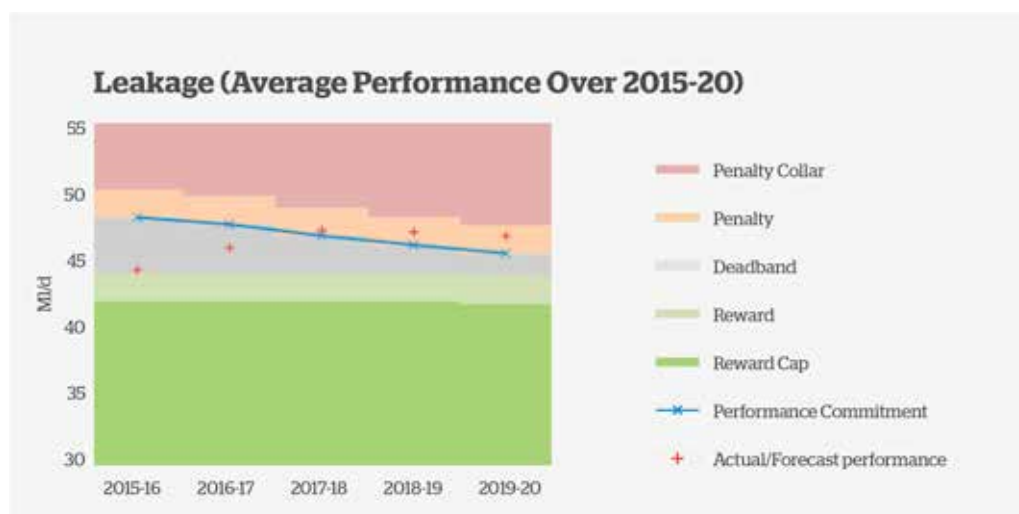
Explanation of ODI

The ODI is based on our average PR14 leakage performance over 2015-2020.

In order to calculate any penalty the PR14 ODI leakage performance is compared against the targets set at PR14. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. For leakage, the incentive penalty rate is £0.902m per Ml/day variance and the reward is £0.486m per Ml/day variance.

To calculate the ODI payment accrued to date, we compare average actual performance from 2015/16 to 2017/18 against the average targets and incentive

ranges for each year. Our average leakage levels between 2015/16 - 2017/18 are 47.1 Ml/day, which is above the average end of year target of 46.7 Ml/day. Therefore we have accrued so far in 2015-2020 a penalty of £1.0824m based on performance 2015/16 - 2017/18. The ODI payment must be taken as a revenue adjustment over 2020-2025. However, we propose to include the £1.0824m penalty incurred to date within our tariffs for 2019/20.



Forecasting

Based on performance to date, we are forecasting to underperform against our leakage targets and to incur further penalties for this performance commitment for the final two years of this AMP. The total forecast penalty is £5.592m.

Current leakage (after technical data changes)

Whilst we do not want customers to pay for improvements in performance attributable to technical data changes, at the same time we want to always report leakage based on the most up-to-date assumptions to provide the most accurate figure possible, current leakage. The table below presents our current leakage performance based on changes to underlying assumptions within our leakage calculation. To ensure consistency, as these technical changes were identified since the original leakage targets were set, we have agreed with Ofwat that our leakage ODIs (whether these are rewards or penalties) will be linked to the PR14 ODI leakage performance reported in table 3A. There is therefore no ODI payment attached to the actual level of leakage performance shown below. The table below demonstrates how our actual and forecast current leakage performance compares to the leakage targets that were set for this period.

F1: Leakage (Current Leakage) - AMP6 Performance					
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Current leakage target (MI/d) (annual)	48.0	47.0	45.0	44.0	43.0
Actual Current leakage post-technical changes (annual)	44.2	46.4	46.6	44.0	43.0
Current leakage target (averaged)	48.0	47.5	46.7	46.0	45.4
Actual Current leakage post-technical changes (averaged)	44.2	45.3	45.7	45.3	44.8
Annual target met?	Yes	Yes	No	Yes	Yes

G1 Meter penetration

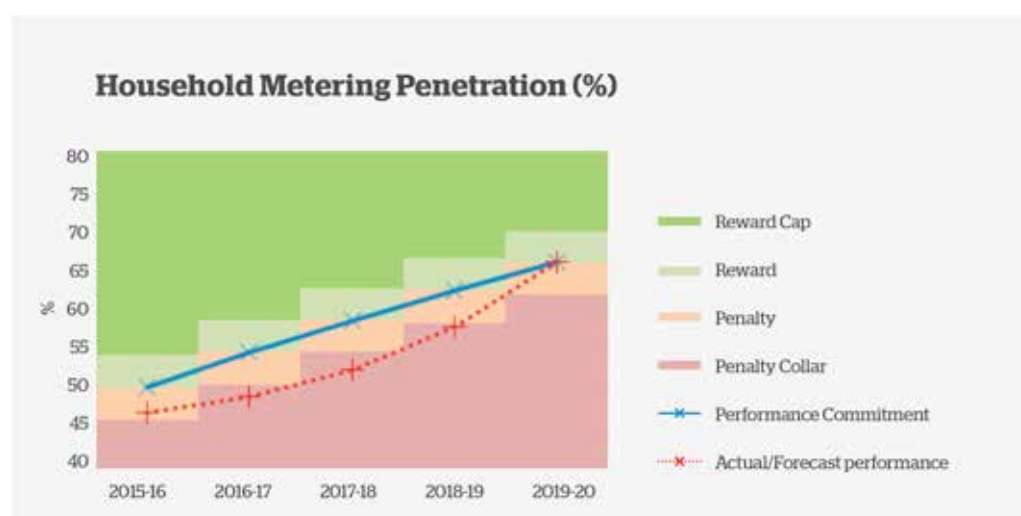
Definition

We encourage our customers to be more efficient in the way they use water by increasing the number of customers who are billed based on their actual consumption of water. We measure this by meter penetration, expressed as the percentage of customers who are billed based on a water meter installed at their property.

Summary

The performance commitment has not been met for 2017/18 resulting in a penalty of £0.152m this year. This is the third year in a row that our performance commitment has not been met.

G1: Meter penetration - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	50.4	54.8	58.8	62.5	65.9	
Actual Performance	47.3	49.3	52.7	58.0	65.9	
PC met?	No	No	No	No	Yes	
Incentive Reward/Penalty	-0.118	-0.152	-0.152	-0.152	0.000	-0.574



Explanation of ODI

In order to calculate any incentive payment the ODI performance is compared against the target performance. If the performance falls within the reward or penalty-zone then we multiply the resulting difference by the incentive rate. For meter penetration, the incentive penalty rate is £0.038m per 1% variance and the reward is £0.036m per 1% variance.

The ODI payment is taken as a revenue adjustment, which will have an impact on customer bills between 2020-25.

Commentary on Performance

Household meter penetration for 2017/18 is 52.7%, up from 49.3% in 2016/17, but below our target of 58.8%. Reported performance in 2016/17 was 49.6%. As part of our year-end assurance activity for 2017/18 reporting we identified that the number of unmeasured properties included in our calculation of the previous year's figures had excluded those properties which had been identified for a meter to be fitted through the change of occupier programme, but the meter had not yet been fitted. Adding those properties back to the calculation slightly reduces the performance from 49.6% to 49.3%. There is no financial incentive impact as the reported performance level was already at the maximum penalty level.

During 2017-18 properties and population numbers have continued to increase at a steady rate (1% p.a.). At 4,912, household new property connections have been at their highest rate for the last 7 years (an average annual rise of 13%). Meter optants, which is when a customer requests the installation of a meter, have dropped by 14% on last year (5,263 in 2016/17 and 4,551 in 2017/18), despite targeted initiatives to promote domestic metering, such as our 'Beat the Bill' campaign. Selective metering, on change of occupier, has shown a dramatic increase on the previous year of 175% (from 3,712 to 10,202) and reflects escalation of our efforts to meet our meter penetration commitments for the period.

We have also set up a dedicated project "Meter 66" to provide the increased focus that delivering our challenging metering target for the next two years requires. This team will continue the work we have already done to improve our metering processes, as we now work towards installing over 70,000 meters to meet our March 2020 target of 65.9%.

Customers can find out more information on applying for a water meter at <https://www.bristolwater.co.uk/your-home/water-meters/>.

Forecasting

Following the Meter 66 strategy, we are forecasting to miss our meter penetration target for next year and incur an ODI penalty but to have met our end of AMP target by 2019/20. Customer opting for a meter have fallen below the expected levels and therefore we are increasing our metering on change of occupancy and promotion of meters, including providing individual customer information on the benefit to them of metered bills, in order to meet our target by 2020.

G2 Per Capita Consumption (PCC)

Definition

This is defined as the average amount of water used by each person each day. It measures how much water we use every year. By knowing this information, the intention is to encourage behaviours to reduce the amount of water we use, thereby helping customers save money for the future and further adapt to the challenges of climate change.

Summary

This is the first year that we have missed our target for PCC in this AMP.

G2: Per Capita Consumption (PR14 ODI PCC) - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (l/h/d)	145.2	144.4	143.6	142.8	142.0	
Actual Performance	141.1	144.1	144.5	142.8	142.0	
PC met?	Yes	Yes	No	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

We want to help customers to reduce water consumption, through supportive and voluntary measures. However, we recognise that we have to do more to help customers reduce water consumption in line with our long-term ambition to reach 110 litres per person per day by 2045.

In order to improve on our performance, our household customers receive a seasonal newsletter called Watertalk that offers advice to help reduce water consumption as well as money saving tips. In addition, we also have water saving kits available on request. We have also installed free water fountains in the centre of Bristol and offered a 'water bar' at local festivals and events, to help promote the benefits of water.

In the longer-term we will:

- Continue the promotion of water metering with provision of targeted water efficiency advice to customers

who opt for a water meter

- Continue and increase our schools education programme on water efficiency and its links to environmental sustainability
- Continue the provision of free water efficiency equipment to our customers including subsidised garden equipment such as water butts
- Continue provision of bespoke water efficiency calculations (through our website) to empower customers to choose the most effective way to save water and save money
- Develop new partnerships with stakeholders across our supply area to create new and innovative ways to help customers become more resource efficient

Customers can compare our performance on the average amount of water used by each household each day against other companies in the industry at <https://discoverwater.co.uk/amount-we-use>.

Forecasting

We are forecasting to meet our business plan targets for this performance commitment for the final two years of this AMP. Although there has been an upward trend in recent years in the

amount of water that customers are using each day, we are continuing to do our part to inform our customers about the importance of reducing water consumption.

Current Per Capita Consumption (PCC) (after leakage technical changes)

As we are committed to dual-reporting leakage performance (based on an approach adopted across the industry), this has implications for our reported PCC figure (due to the inclusion of leakage from customers' pipes). The table below presents our PCC performance based on this version of leakage. There is not however any ODI attached; the information has been included for the purpose of being as open and transparent to our customers about our performance as possible.

Our long-term ambition of 110 litres per person per day will be measured using this calculation of PCC which reflects the latest technical evidence on leakage from customers' pipes.

G2: Per Capita Consumption (Current PCC) - AMP6 Performance					
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Performance Commitment (l/h/d)	145.2	144.4	143.6	142.8	142.0
Actual Performance	141.1	143.5	146.3	142.8	142.0
PC met?	Yes	Yes	No	Yes	Yes

H1 Total carbon emissions

Definition

This is the total carbon emissions of the Company and contractors working on our behalf. We calculate our carbon emissions through the electrical energy we use in our operations, our consumption of gas and the fuel we use for transport, plant operation and site heating. This equals our annual operational greenhouse gas emissions, based on the Carbon Accounting Workbook and is expressed in kilograms of CO₂ (carbon dioxide) equivalent divided by the population supplied. The purpose of the measure is to show the Company's normalised carbon emissions, for emissions that are created through the electrical energy used by the business, and through the consumption of gas and fuel for vehicle travel, plant operation and site heating.

Summary

This continues to be a challenging target for the Company to achieve, as the factors that influence this performance commitment are largely outside of our control.

H1: Total carbon emissions - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (kgCO₂e per person)	32	25	23	22	20	
Actual Performance	35	32	28	38	38	
PC met?	No	No	No	No	No	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

One key measure of our environmental impact is our carbon emissions. We use almost 80 million kilowatt hours of electrical energy to treat and distribute water. This accounts for almost 90% 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.

For this performance commitment, we follow an energy management strategy, which adheres to and maintains ISO 50001 standard accreditation for continuous improvements in energy

efficiency. Over the last year, we have made improvements in compressor/ blower systems operations, pump efficiency controls and have worked on the feasibility of solar PV installation, which is still under investigation. Going forward, we will continue to work on the delivery of solar PV and continue to target pump efficiency improvements, which will include the installation of pump optimisation software.

Forecasting

We are forecasting to miss our business plan targets for this performance commitment for the final two years of this AMP. The forecast has been generated using carbon emission data from 2015 to 2018. Due to the UK Emissions factor being outside of Bristol Water's control, other projections are unreliable. Therefore the revised forecast has been amended to reflect the aim of 38kgCO₂e per capita per annum by 2020. It is not possible to forecast a reduction due to the uncertainty of the UK Emissions factor impacting on the end calculation.

H2 Raw water quality of sources

Definition

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. This is an assessment of the quality of our raw water sources that are at risk of deterioration due to increased levels of pesticides and nutrients in their catchments.

With the agreement of Ofwat, this year we have improved the reporting by converting the target from a categorisation (as either deteriorating, marginal, stable or improving) to reporting on the percentage of AMP5 baseline (8,059) aggregate of algal bloom frequency.

Summary

Although the water quality of some of our sources is at risk of deterioration due to potential ingress of nutrients and/or pesticides from its catchments, we have successfully met our targets to date and we are seeing an upwards improvements, year on year, as a result of our actions.

H2: Raw water quality of sources - AM6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (% of AMP5 baseline aggregate of algal bloom frequency)	>+10%	>+10%	+/-<+10%	+/-<+10%	+/-<+10% for ≥2 years	
Actual Performance	+20%	+11%	-1%	-1%	-1%	
PC met?	Yes	Yes	Yes	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on customer bill levels.

progressive beneficial effect on water quality, with a gradual reduction in the level of algal blooms experienced in these water sources.

Commentary on Performance

We have been working with local landholders and farmers to identify where these raw water quality 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. We monitor the quality of water in the Mendip reservoirs and this monitoring has indicated that our catchment management programme is having a

Forecasting

Based on our performance to date, we are forecasting to meet our business plan targets for this performance commitment for the final two years of this AMP.

H3 Biodiversity index

Definition

We monitor our protection and enhancement of the natural environment through an innovative approach that we have called the biodiversity index. This quantifies the environmental value of our sites and creates a "direction of travel" for the way we manage our assets, helping us to protect and enhancing the natural environment by using the index to quantify the impact of our actions on the broader environment. This calculation and method is a tool we will continue to develop, using it to measure our performance on habitat protection and enhancement.

With the agreement of Ofwat, this year we have improved the reporting by converting the target from a categorisation (as either deteriorating, marginal, stable or improving) to reporting on the number of biodiversity index points that have increased each year (from a baseline of 17,613 in 2014/15).

Summary

We have successfully met our targets to date and for 2017/18 the biodiversity index score has increased by 7 points.

H3: Biodiversity index - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (index)	17,649	17,650	17,651	17,652	17,653	
Actual Performance	17,649	17,650	17,657	17,658	17,659	
PC met?	Yes	Yes	Yes	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

We have met our target for this year for this measure. There has been an improving trend in our biodiversity improvement since we created this measure in 2014-15. Working with our partners such as Avon Wildlife Trust, local schools and land owners we have created new habitats which will improve the biodiversity and support wildlife across a wider stretch of the landscape we serve.

Although the biodiversity index is applied on a quantified basis to the land we own, we have also use the approach to help improve the biodiversity when we carry out our works, including the Southern Resilience Scheme, with scores taken before and after works take place at sites from Barrow, south to Cheddar. Work carried out on land we do not

own is not included in the performance measurement, even though the tool is used on other schemes. The areas of work that have improved our score by seven points this year are:

- Barrow reservoirs dry ditch and embankment clearance: 1km of over-grown ditch was removed, which opened up semi-improved grassland habitat on embankments and dry ditch habitats, increasing the biodiversity by four points.
- Chew Stoke pumping station: 0.5ha of semi-improved grassland was identified for improvement in the autumn of 2017. This grassland habitat was at risk of deteriorating to poor condition due to the increase in public access to this site with dogs and dog fouling. With the help of staff volunteers, 110 mixed deciduous trees species were planted here, increasing the biodiversity score by three points.

Forecasting

We are forecasting to meet our business plan target for this performance commitment for the final two years of this AMP. Projects to continue to increase the biodiversity score for the remainder of AMP6 include further deciduous tree planting, woodland management to improve the condition of woodland and hedgerow assets and the management of lakeside and riparian habitats to improve and maintain the condition.

H4 Waste disposal compliance

Definition

This measures the percentage compliance as per by the number of Bristol Water samples taken of discharged trade effluent from designated Company sample points that meet the consent requirements in the Environment Agency (EA) permits.

Summary

This continues to be a challenging target for the Company to achieve.

H4: Waste disposal compliance - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	100	100	100	100	100	
Actual Performance	96	96	98	96	96	
PC met?	No	No	No	No	No	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

Although we failed to meet our target for this year, over 98% of the samples we took were fully compliant with the discharge consent conditions. This shows a good level of improvement compared to the performance during 2016/17 (95.8%).

We are reviewing the reasons for the small number of failures we have had this year with a view of implementing remedial measures to drive our compliance figure higher.

consent for historic reasons. In the short term, we anticipate that the introduction of this new consent will mean that the number of failures will increase, even though improvements at other works including Purton and Littleton will reduce the number of failures at other locations.

Forecasting

We are forecasting to miss our business plan target for this performance commitment for the final two years of this AMP. The forecast performance for these two years is worse than our current performance because of the introduction of a new discharge consent that we now have in place for the fisheries at Blagdon. The Environment Agency are working with us to assess how to measure the environmental need at this site which previously has not had a discharge

I1 Percentage of customers in water poverty

Definition

This is defined as the percentage of customers within our supply area for whom their water bill represents more than 2% of their disposable income, defined as gross income less income tax. This measure allows us to understand the impact of our bills on our customers. To calculate this we use a population analytics model to estimate the gross percentage of customers in water poverty, and then deduct those customers who we support through our Assist social tariff.

Using this measure, we are able to offer advice, assistance schemes and capped tariffs, known as 'social tariffs' (including our Assist tariff, WaterSure Plus and Pension credit tariff) to customers who fall within this category. This measure then also allows us to evaluate the success of our tariffs and assistance schemes for customers who are experiencing difficulty paying their bills.

Summary

We have again successfully met our target for this performance commitment. Gross water poverty was 0.8%, (just under 4,000 customers), which falls effectively to zero when the impact of our social tariffs are taken into account. This performance commitment ensures that we monitor our performance in helping those customers on the lowest incomes and experiencing the most serious financial difficulties by calculating and tracking the percentage of customers in 'water poverty'.

I1: Percentage of customers in water poverty - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	2.0	2.0	1.9	1.9	1.8	
Actual Performance	0.4	0.9	0.0	1.9	1.8	
PC met?	Yes	Yes	Yes	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

We offer three discounted tariffs to make sure we help customers who find it hard to pay their water charges, with 13,707 customers receiving assistance through these measures, an increase of 17% over last year. Below is a breakdown of each scheme and the number of customers currently registered:

- 6,439 households are on our 'Assist' social tariff, which offers significant bill discounts to those customers least able to afford their bill, following a means

assessment. Following a change to the status of the social tariff, for this year we have deducted these customers from the gross water poverty figure, consistent with our methodology.

- 2,587 households are on our WaterSure Plus metered tariff, this is for customers in receipt of certain benefits, and are defined by the government as 'vulnerable', either because they have a medical condition or a large family.
- 4,681 customers are on our Pension Credit social tariff. This scheme gives a 20% discount on water bills to customers who live in a household where all members over the age of 18 are in receipt of Pension Credit.

In addition to the social tariff schemes, 3,821 households are currently benefitting from our 'Restart' scheme to clear their debt combined with our 'Assist' tariff, which reduces bills to an affordable level and helps customers who are in financial difficulty to get back on track with their water bill.

We also offer metering, water efficiency support and flexible payments plans to customers who may also need support paying but do not need as much assistance as a social tariff.

We know that when our customers have difficulty paying water bills, it is seldom the only difficulty they face and we work to provide independent debt advice, working closely with the agencies that provide these services. In 2017/18, we donated £100,000 to debt advice agencies across our supply area to support them in providing free advice to our customers with the funding tied to successful eligible customer registration. We also work closely with our partner organisations to sponsor and attend debt and affordability events in our region

The established working group called the Affordability Action Plan (AAP) brings together colleagues from Bristol Water, Pelican and Wessex Water to make improvements for customers with affordability concerns. From January 2018 the group has agreed to expand the remit to cover all aspects of vulnerability. This is expected to improve further the service that Pelican provides to all customers in need of extra support and expand our use of partners outside of the affordability and debt sector.

Elderly and disabled customers, those undergoing home dialysis or have priority needs can also register for our Priority Services Register, which gives access to a range of special services free of charge. We have worked with WaterUK to start the process of standardising our vulnerable customer need codes across utilities to enable data sharing in the future.

Forecasting

We are forecasting to meet our business plan target for this performance commitment for the final two years of this AMP.

J1 Service incentive mechanism (SIM)**Definition**

This is Ofwat's measure for comparing the customer service performance of water companies in England and Wales. It includes quantitative measures of the numbers of complaints and unwanted contacts that companies receive and performance in handling telephone contacts. It also includes a survey of customers' views on the service provided.

Summary

Following an agreement with Ofwat, we have this year improved the reporting by converting the target from achieving a 'top 5' performance within the industry to a SIM score that our customers can compare the company to. The target for each year is now based on the upper quartile SIM score from the previous reporting year. As such, it is not possible to state what our target is for 2018/19 until all companies have reported on their performance for this year. This is likewise the case for our target for 2019/20.

J1: Service incentive mechanism (SIM) - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (SIM score)	85.00	85.00	86.00	TBC	TBC	
Actual Performance	85.10	85.91	83.38	87.04	87.18	
PC met?	Yes	Yes	No	TBC	TBC	

Explanation of ODI

The ODI payment must be taken as a revenue adjustment, which will have an impact on our customers' bills. Linking ODI payments to revenue (rather than the RCV), brings the payments closer in time to the performance that generated them. This strengthens the incentive for the Company to fulfil our service commitments to our customers. For the SIM, any rewards or penalties will be calculated as part of the PR19 determination and will impact customers' bills from 2020/21 to 2024/25.

Commentary on Performance

Our performance is below the level where we would have expected to be when we started the year, primarily due, to four significant incidents (Sea Mills burst, Willsbridge burst, Clevedon precautionary boil water notice and the freeze/thaw related supply interruption incidents at the end of the year) which have impacted significantly on this measure. We estimate that we received an additional 10,837 contacts as a result of these incidents alone. We have worked throughout the year on a number of projects to drive improvement for the

2017/18 results but the impact was not enough to mitigate the effects of these incidents.

If the incidents are excluded from our contact numbers and therefore from the quantitative component of the SIM score, we estimate that our SIM score would have been 85.2, which would mean we would have still narrowly missed our target for this year.

We undertook a range of lessons learnt research after the incidents to understand how we can improve our response to similar events in future. This research showed that customers were generally satisfied with our response. Customers who were dissatisfied with our response to the bursts at Sea Mills and Willsbridge cited the need to distribute bottled water to those in need. We took this into account when responding to the precautionary boil water notice in Clevedon and found that this improved customer satisfaction. All customers who rated us as dissatisfied in the feedback survey were contacted and the issues resolved.

In addition, we continue to invest in wider transformation and new technology as part of our drive towards our long term vision for being the number one company for customer service.

Customers can compare our performance on customer service against other companies in the industry at <https://discoverwater.co.uk/customer-experience-rating>.

Forecasting

We are forecasting to meet our business plan target for this performance commitment for the final two years of this AMP.

J2 General satisfaction from surveys

Definition

This is the percentage of our customers responding to our annual satisfaction survey who rate our service as excellent, very good or good

Summary

Despite the challenging target, we are continuing to improve our performance for our annual survey year on year; there has been a continuing upwards trend. We did not hit our challenging target of 93%, however results from the UK Customer Service Index (UKCSI) are very positive and rank us as the joint top performing water company.

J2: General satisfaction from surveys - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	93	93	93	93	>93	
Actual Performance	83	86	87	93	93	
PC met?	No	No	No	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

Our performance is below the level where we would have expected to be when we started the year as four incidents (Sea Mills burst, Willsbridge burst, Clevedon boil notice and the freeze/thaw related supply interruption incidents at the end of the year) have impacted significantly on this measure. We have worked throughout the year on a number of projects to drive improvement for the 2017/18 results but the impact was not enough to mitigate the effects of incidents.

A selection of the improvements that we introduced during 2017/18 to improve customer satisfaction included a bill

redesign, real time feedback, 'Live Chat' and the increased use of social media, with over 400,000 customers reached through Facebook during the Clevedon boil notice and a new customer charter across Bristol Water and our network sub-contractors.

Although not a performance commitment, we also measure our customers' general satisfaction through the UKCSI. The January 2018 UKCSI reported that Bristol Water scored 175 for net promoter score, compared to the average of 15.3 across all sectors and -8.0 in Utilities. The UKCSI is a way in which we can benchmark ourselves against other industries to ensure that our customers are receiving the best service both inside and outside of the sector. We are proud of our success in this report, however we recognise that more needs to be done.

Forecasting

We are forecasting we will meet our business plan target for this performance commitment for the final two years of this AMP. We believe that our performance will continue to improve over this period, based on the improving journey that we have been on to date and partly informed by our ranking in the UKCSI.

J3 Value for money

Definition

This is the percentage of our customers who consider that we provide good value for money.

Summary

Despite having below average customer water bills compared to the rest of the industry, our performance for this year has declined from last year's reported performance.

J3: Value for money - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	71	71	71	72	72	
Actual Performance	70	72	69	72	72	
PC met?	No	Yes	No	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

Value for money is an important concept in measuring whether customers consider that the service that we provide is worth what they pay for it. Some customers struggle to make this assessment, often citing that they cannot compare because they cannot choose water supplier, but we have found the measure to be sufficiently well understood by most respondents to our surveys.

Our performance has declined compared to last year; we believe that this is partly as a result of the exceptional incidents that affected customer water supplies, such as the precautionary boil water notice at Clevedon in January 2018, which may have temporarily affected customers' view of Bristol Water.

The measures we are taking to improve overall affordability across our entire customer base involve:

- Finding efficiencies by improving our digital offering and leveraging new

technologies to reduce our cost to serve;

- Continuing to refine our processes for bad debt reduction; and
- Helping customers find ways to reduce their own bills through reducing their consumption

Forecasting

We are forecasting to meet our business plan targets for this performance commitment for the final two years of this AMP. We have assumed that the major events that took place this year are an outlier and that there is an overall upwards trend of improvement.

K1 Ease of contact

Definition

This is the percentage of our customers who consider that we are easy to contact.

Summary

This is a challenging target to achieve and our analysis suggests that our score was adversely impacted by precautionary boil water notice in Clevedon in January 2018, with scores following this event having reduced by 0.8 pts. This may have been due to the high volume of calls from the weeks following our incident in January therefore on occasions customers may have struggled to get through to us.

K1: Ease of contact - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (%)	96.3	96.4	96.5	>96.5	>96.5	
Actual Performance	95.0	94.4	93.1	96.5	96.5	
PC met?	No	No	No	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

In 2017/18, 93.1% of consumers surveyed considered that it was easy to contact us by phone. To score highly in this measure, customers expect us to have quick and accurate information so we are working on improvements to make information more easily available to our employees so they can answer questions consistently and correctly the first time. This year IT improvements have started to give our contact centre more visibility of where customer jobs are in the system across both Bristol Water and our subcontractor, making it easier to answer enquiries at the first point of contact.

Forecasting

We are forecasting to meet our business plan target for this performance commitment for the final two years of this AMP. We believe that the IT improvements noted above will help to ensure that our performance improves to meet this very challenging target.

L1 Negative billing contacts

Definition

This is the number of 'unwanted' calls received by our joint venture billing company, Pelican, relating to a subset of specific billing related issues.

Summary

We have met our target for this year and achieved our best performance to date.

L1: Negative billing contacts - AMP6 Performance						
Year	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Forecast	AMP6 Total
Performance Commitment (No. of contacts per year)	2,408	2,395	2,315	2,240	2,170	
Actual Performance	2,301	3,096	2,300	2,240	2,170	
PC met?	Yes	No	Yes	Yes	Yes	

Explanation of ODI

This is a reputational performance commitment so there is no associated reward or penalty and therefore no impact on our customers' bill levels.

Commentary on Performance

Our customers want bills that are accurate, clearly presented and easy to understand. We monitor this by measuring a subset of the number of 'unwanted' billing contacts we receive. 'Unwanted' is the term used by Ofwat in its quantitative SIM measures for calls which the customer would prefer not to make, in the sense that they are dissatisfied because they are experiencing a problem or concern, are making a repeat or chase call, or want to complain.

The Company's external audits that took place in 2016 have helped us to refine our methodology of how contacts are classified within this measure. Following the changes in classification we received 2,300 contacts in 2017-18, which is a significant improvement on the number of complaints (3,096) we received last year.

Forecasting

We are forecasting to meet our business plan target for this performance commitment for the final two years of this AMP. We expect our recent improvements to continue to reduce the number of unwanted billing contacts.

3C AIM

Bristol Water has no sites currently subject to the AIM. This table is not applicable to the Company for 2017-18.

3D SIM table

for the 12 months ended 31 March 2018

Qualitative performance	
1st survey score	4.39
2nd survey score	4.37
3rd survey score	4.44
4th survey score;	4.34
Qualitative SIM score (out of 75)	63.56
Quantitative performance	
Total contact score	103.60
Quantitative SIM score (out of 25)	19.82
Total annual SIM score (out of 100)	
83.38	

The information provided in table 3D provides details of the Company's SIM performance against the quantitative and qualitative elements.

Commentary on our performance can be found on page 69.

Section 4

Additional regulatory information

The information provided in Section 4 details financial and non-financial information about the Company. We have published five additional tables (4J, 4L, 4P, 4Q and 4V) in this Section to improve data transparency of information on our costs and operations.

The information captured in these additional tables is used to inform Ofwat's period review (PR19) assessment of our efficient costs and therefore the amount of revenue we are allowed to recoup from our customers in the next planning period 2020/21 to 2024/25. Reporting of this information to Ofwat is not a new requirement, but the publication of this information is new for 17/18.

The following section presents Bristol Water's cost and operational information for 2017/18 with summary commentary on the key changes compared to the last reporting year.

4A Non-financial information

for the year ended 31 March 2018

	Unmeasured	Measured
Retail - Household		
Number of void households ('000s)	5.974	4.317
Per capita consumption (excluding supply pipe leakage) l/h/d	160.70	129.13
Wholesale		
		Water
Volume (Ml/d)		
Bulk supply export		6.660
Bulk supply import		0.680
Distribution input		279.011

4B Wholesale totex analysis

For the year ended 31 March 2018

	Current Year £m	Cumulative £m
Actual totex	104.043	256.871
Items excluded from the menu		
Third party costs	1.711	4.210
Pension deficit recovery payments	0.000	0.435
Other 'Rule book' adjustments	0.000	0.000
Total costs excluded from the menu	1.711	4.645
Transition expenditure	0.000	0.755
Adjusted Actual totex	102.332	252.981
Adjusted Actual totex - base year prices	91.090	231.583
Allowed totex based on final menu choice - base year prices	83.700	254.300

Allowed totex exceeds actual totex in base year prices by £7.390m in 2017/18.

Actual totex for the year includes an additional £1.009m on replacing lead communication pipes that was not in the PR14 baseline.

Our planned profile of expenditure during AMP6 has a different yearly profile to the flat yearly profile in the determination. This is due to the implementation of a new risk-based decision making process to ensure our expenditure during the period is appropriately targeted and solutions are optimised and the natural profile of some expenditure through the AMP (e.g. costs associated with our PR19 business plan). We are forecasting to spend £8.049m (£7.165m in 2012/13 prices) less than the wholesale totex allowance for AMP6. Timing effects account for the £8.399m variance observed in the year (£7.390m plus additional £1.009m on replacing lead communication pipes, and an element of efficiency across AMP6 after adjusting for such timing differences).

On a cumulative basis allowed totex exceeds adjusted actual totex in base year prices by £22.717m.

Expenditure to deliver our outcomes included significant amounts for mains (including trunk mains relining), Southern Resilience Scheme, communication pipes and PR19, collectively amounting to £26.497m in the year. We continue to focus expenditure on providing a resilient supply of high quality water, increased spending on leakage detection and control, and improving our processes to enable bursts to be fixed with less disruption to customers.

4C Impact of AMP performance to date on RCV

For the year ended 31 March 2018

	2018 £m
Cumulative totex over/underspend so far in the price control period	-25.564
Customer share of cumulative totex over/underspend	-2.475
RCV element of customer share of cumulative totex over/underspend	-13.099
Adjustment for ODI rewards or penalties	-
RCV determined at FD at 31 March	502.270
Projected 'shadow' RCV	489.171

We expect the totex underspend to reverse in future periods due to timing of expenditure, to give a smaller underspend at the end of this AMP c.£8m in 2017/18 prices.

4D Wholesale totex analysis

For the year ended 31 March 2018

Water resources**Network +**

	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure							
Power	0.000	1.923	0.172	0.000	2.538	4.090	8.723
Income treated as negative expenditure	0.000	-0.003	0.000	0.000	-0.005	-0.007	-0.015
Abstraction charges/ discharge consents	2.778	0.000	0.006	0.000	0.093	0.001	2.878
Bulk supply	0.000	0.018	0.000	0.000	0.039	0.081	0.138
Other operating expenditure - renewals expensed in the year (infra)	0.000	0.263	-0.226	0.000	0.000	2.129	2.166
Other operating expenditure - renewals expensed in the year (non-infra)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other operating expenditure - excluding renewals	0.000	5.450	0.710	0.000	11.068	15.769	32.997
Local authority and Cumulo rates	0.000	1.287	0.127	0.000	0.359	3.029	4.802
Total operating expenditure excluding third party services	2.778	8.938	0.789	0.000	14.092	25.092	51.689
Third party services	0.095	0.151	0.000	0.000	0.308	0.998	1.552
Total operating expenditure	2.873	9.089	0.789	0.000	14.400	26.090	53.241
Capital expenditure							
Maintaining the long term capability of the assets - infra	0.000	0.380	0.165	0.000	0.000	11.035	11.580
Maintaining the long term capability of the assets - non-infra	0.000	1.257	0.081	0.086	7.247	6.423	15.094
Other capital expenditure - infra	0.000	0.000	0.000	0.000	0.000	17.383	17.383
Other capital expenditure - non-infra	0.000	0.572	0.002	0.000	0.460	4.700	5.734
Infrastructure network reinforcement	0.000	0.000	0.000	0.000	0.000	5.067	5.067
Total gross capital expenditure (excluding third party)	0.000	2.209	0.248	0.086	7.707	44.608	54.858
Third party services	0.000	0.000	0.000	0.000	0.141	0.018	0.159
Total gross capital expenditure	0.000	2.209	0.248	0.086	7.848	44.626	55.017
Grants and contributions	0.000	0.000	0.000	0.000	0.000	4.215	4.215
Totex	2.873	11.298	1.037	0.086	22.248	66.501	104.043
Cash expenditure							
Pension deficit recovery payments	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other cash items	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Totex including cash items	2.873	11.298	1.037	0.086	22.248	66.501	104.043

4D Wholesale totex analysis (cont.)

for the year ended 31 March 2018

Unit cost information (operating expenditure)

	Water resources		Network+			
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
Licenced volume available (ml)	176,692,000					
Volume abstracted (ml)		106,678,228				
Volume transported (ml)			104,784,825			
Average volume stored (ml)				30,846,163		
Distribution input volume (ml)					101,839,015	
Distribution input volume (ml)						101,839,015
Unit cost (£/ml)	16.260	85.200	7.530	0.000	141.400	256.189
Population	1,207,583	1,207,583	1,207,583	1,207,583	1,207,583	1,207,583
Unit cost (£/pop)	2.379	7.527	0.653	0.000	11.925	21.605

4Di Accounting separation policy

The Ofwat business unit definitions for resources, raw water distribution, treatment and treated water distribution, as given in Regulatory Accounting Guideline 4.07, have been applied to the fixed assets and operating cost elements of the Company accounts to provide the accounting separation analyses.

The historic cost fixed asset register is held in the company accounting system at a very detailed level. Each asset on it has been reviewed and 94% of the net book value has been attributed directly to a business unit. Over 5% of assets are allocated to general and support, a category which is then reallocated over the business units. Less than 1% are assets other than General and Support assets allocated over the business units. These are operational assets that cannot be directly attributed to one business unit. Internal guidelines have been established mapping account classes into which all assets are grouped to the business units. All the Company sites have been reviewed and the relevant appropriate business units recorded to ensure consistency when applying business units to new fixed assets. This has been at a granular level, which has minimised the need for recharges between business units. All assets are allocated to business units as they are created.

The operating cost analysis is based on the Company's management accounts which are used to monitor the financial performance of the Company by the Board and managers. These are not structured under the business unit headings. They reflect the operational structure of the Company. A review of these produced a mapping between the company cost centres and the business units, with 66% of costs being directly allocated to business units, and 34% requiring a method of allocation to be applied. Any operating cost which relates to sites or assets, follows the same business unit as applied to the associated current cost fixed assets, ensuring consistency between the treatment of costs and assets.

During the year there were changes to the methodology to reflect the new RAGs issued in November 2017. Details of the main changes are provided in the accounting separation methodology statements.

The accounting separation analyses have been drawn up in accordance with the Company's accounting separation methodology statement which has been published separately on its website. This also provides commentary comparing this year's expenditure and capital maintenance costs with last years.

Table 4E

This is not applicable to Bristol Water.

4F Operating cost analysis

for the year ended 31 March 2018

	Household retail		
	Household unmeasured £m	Household measured £m	Total £m
Operating expenditure			
Customer Services	1.030	1.360	2.390
Debt management	0.240	0.316	0.556
Doubtful debts	1.663	1.249	2.912
Meter reading	-	0.290	0.290
Other operating expenditure	1.463	1.526	2.989
Total operating expenditure excluding third party services	4.396	4.741	9.137
Third party operating expenditure	-	-	-
Total operating expenditure	4.396	4.741	9.137
Depreciation – tangible fixed assets (on assets existing at 31 March 2015)	0.004	0.013	0.017
Depreciation – tangible fixed assets (on assets acquired since 1 April 2015)	0.021	0.041	0.062
Amortisation – intangible fixed assets (on assets existing at 31 March 2015)	0.032	0.034	0.066
Amortisation – intangible fixed assets (on assets acquired since 1 April 2015)	0.030	0.032	0.062
Total operating costs	4.483	4.861	9.344
Capital expenditure	0.147	0.159	0.306
Demand-side efficiency and customer-side leaks analysis - Household			
Demand-side water efficiency - gross expenditure			0.068
Demand-side water efficiency - expenditure funded by wholesale			0.068
Demand-side water efficiency - net retail expenditure			-
Customer-side leak repairs - gross expenditure			0.158
Customer-side leak repair - expenditure funded by wholesale			0.158
Customer-side leak repair - net retail expenditure			-

4G Wholesale current cost financial performance

for the year ended 31 March 2018

	Total £m
Income statement	
Revenue	102.932
Operating expenditure	-53.241
Capital maintenance charges	-36.330
Other operating income	-0.292
Current cost operating profit	13.069
Other income	2.019
Interest income	4.107
Interest expense	-19.274
Other interest expense	1.247
Current cost profit before tax and fair value movements	1.168
Fair value gains/(losses) on financial instruments	0.000
Current cost profit before tax	1.168

4Gi Current cost accounting policies

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except for the capital maintenance charge which is current cost depreciation on non-infrastructure assets, and an infrastructure renewals charge (IRC) for infrastructure assets.

The current cost depreciation is derived from the current cost fixed asset register which is maintained in parallel to the historic fixed asset register with additions and disposals, and is inflated annually with year-end RPI.

The infrastructure renewals charge is the average of the forecast capital expenditure for AMP 6 and AMP 7 (the ten years from 2015 to 2025) in respect of the pro-active maintenance of the network of pipes and pumped raw water storage reservoirs, known as infrastructure renewals expenditure. This is a change to the methodology used last year. Until 2014/15 a long term view of infrastructure renewals expenditure, covering the current AMP and ten years beyond, was used to produce an annual IRC. The IRC was a proxy for depreciation of infrastructure assets in the statutory accounts. The 2014/15 IRC was inflated by year average RPI to 2016/17 prices, and was included in the capital maintenance charge in last year's table. The change to using the forecast average non-expensed infrastructure spend has reduced this year's charge by £8.639m.

Amortisation of grants and contributions is included in the "Other income" line of the table, and not netted off the capital maintenance charge.

4H Financial Metrics

for the year ended 31 March 2018

Net debt	£321.256m
Regulated equity	£181.014m
Regulated gearing	63.96%
Post tax return on regulated equity	6.55%
RORE (return on regulated equity)	5.53%
Dividend yield	2.02%
Retail profit margin - Household	1.32%
Retail profit margin - Non household	-2.65%
Credit rating	Baa1
Return on RCV	5.18%
Dividend cover	2.93
Funds from operations (FFO)	£39.344m
Interest cover (cash)	4.04
Adjusted interest cover (cash)	1.86
FFO/Debt	0.12
Effective tax rate	18.59%
Free cash flow (RCF)	£32.412m
RCF/capex	0.59
Revenue (actual)	£111.048m
EBITDA (actual)	£48.015m
	%
Proportion of borrowings which are fixed rate ¹	36.16
Proportion of borrowings which are floating rate	9.35
Proportion of borrowings which are index linked	54.49
Proportion of borrowings due within 1 year or less	0.14
Proportion of borrowings due in more than 1 year but no more than 2 years	18.89
Proportion of borrowings due in more than 2 years but no more than 5 years	5.19
Proportion of borrowings due in more than 5 years but no more than 20 years	57.23
Proportion of borrowings due in more than 20 years	18.55

The Company's net debt as defined in the financial statements as at 31 March 2018 is £323.433m. The definition of net debt for table 1E excludes unamortised net premia of £1.893 and interest rate swaps of £0.287m, in accordance with Ofwat guidance.

Gearing is calculated as net debt above (£321.256m) divided by Regulatory Capital Value (RCV) (£502.270m) as at 31 March 2018.

The return on regulated equity (RORE) calculates the returns on a regulatory basis by reference to the notional gearing level of 62.5% and average RCV for the year. It is calculated in accordance with the methodology set out in the RAGs, which is that the base RORE set at the final determination should be adjusted for the following factors net of any tax impact:

¹Preference shares are not included in the calculations of proportion of borrowings rows in table 4H.

	Average	2017/18	2016/17	2015/16	
RORE in final determination	5.80%	5.80%	5.80%	5.80%	
		£m	£m	£m	
The company share of totex out or under performance		3.583	0.000	0.000	This is 50% of the permanent outperformance
The company share of any out or underperformance on retail costs		0.733	0.063	-0.393	This is the outperformance on retail in the year
The impact on the RCV run off of the out or under performance of totex		0.000	0.000	0.000	This is zero as we have recognised the full impact of the company share of the out performance
The impact of any ODI or SIM penalties or rewards earned in the year, even if they are not payable/receivable until the following AMP		-2.257	-0.152	-1.141	<p>The penalties are as shown in table 3A</p> <ul style="list-style-type: none"> • £1.082 for leakage • £0.739 for unplanned customer minutes lost • £0.284 mean zonal compliance • £0.152 meter penetration
The difference between the actual interest charge (in real terms) and the allowed interest (real) on notional debt		1.536	-1.087	-2.241	Applying actual interest rates to notional debt
Tax impact		-0.683	0.235	0.755	Tax calculated at 19%
Total adjustments		2.912	-0.941	-3.020	
Total	-0.27%	1.59%	-0.55%	-1.86%	Total adjustment expressed as a % of the regulatory equity
RORE	5.53%	7.39%	5.25%	3.94%	

The dividend yield is calculated excluding dividends paid in respect of interest on inter-company loans as the guidance specifically states these are to be excluded from this line.

4I Financial derivatives

for the year ended 31 March 2018

	Nominal value by maturity (net)			Total value			Interest rate (weighted average)	
	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	Total accretion £m	Payable %	Receivable %
Derivative type								
Interest rate swap (sterling)								
Floating to fixed rate	117,500	-	-	117,500	0.287	-1.547	117	0.54
Total	117,500	-	-	117,500	0.287	-1.547		

4J Atypical expenditure by business unit - wholesale water
for the year ended 31 March 2018

	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure (excl. atypicals)							
Power	0.000	1.923	0.172	0.000	2.538	4.090	8.723
Income treated as negative expenditure	0.000	-0.003	0.000	0.000	-0.005	-0.007	-0.015
Abstraction charges/ discharge consents	2.778	0.000	0.006	0.000	0.093	0.001	2.878
Bulk supply	0.000	0.018	0.000	0.000	0.039	0.081	0.138
Other operating expenditure							
renewals expensed in the year (infra)	0.000	0.263	-0.226	0.000	0.000	2.129	2.166
renewals expensed in the year (non-infra)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other operating expenditure - excluding renewals	0.000	5.450	0.710	0.000	11.068	15.769	32.997
Local authority and Cumulo rates	0.000	1.287	0.127	0.000	0.359	3.029	4.802
Total operating expenditure excluding third party services	2.778	8.938	0.789	0.000	14.092	25.092	51.689
Third party services	0.095	0.151	0.000	0.000	0.308	0.998	1.552
Total operating expenditure	2.873	9.089	0.789	0.000	14.400	26.090	53.241
Capital expenditure (excl. atypicals)							
Maintaining the long term capability of the assets - infra	0.000	0.380	0.165	0.000	0.000	11.035	11.580
Maintaining the long term capability of the assets - non-infra	0.000	1.257	0.081	0.086	7.247	6.423	15.094
Other capital expenditure - infra	0.000	0.000	0.000	0.000	0.000	17.383	17.383
Other capital expenditure - non-infra	0.000	0.572	0.002	0.000	0.460	4.700	5.734
Infrastructure network reinforcement	0.000	0.000	0.000	0.000	0.000	5.067	5.067
Total gross capital expenditure (excluding third party)	0.000	2.209	0.248	0.086	7.707	44.608	54.858
Third party services	0.000	0.000	0.000	0.000	0.141	0.018	0.159
Total gross capital expenditure	0.000	2.209	0.248	0.086	7.848	44.626	55.017
Grants and contributions	0.000	0.000	0.000	0.000	0.000	4.215	4.215
Totex	2.873	11.298	1.037	0.086	22.248	66.501	104.043
Cash expenditure (excl. atypicals)							
Pension deficit recovery payments	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other cash items	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Totex including cash items	2.873	11.298	1.037	0.086	22.248	66.501	104.043
Total atypical expenditure	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total expenditure	2.873	11.298	1.037	0.086	22.248	66.501	104.043

Section 4: Additional regulatory information (continued)

Table 4J presents a breakdown of Bristol Water's total expenditure for 2017/18 by business unit with regard to our fixed assets, operating costs and atypical items. This table is similar to Table 4D which presents a breakdown of Bristol Water's total expenditure by business unit with regard to our fixed assets and operating costs only; however, Table 4D does not explicitly itemise atypical expenditure. Total expenditure on the two tables must reconcile.

We report atypical expenditure to include items considered exceptional in our statutory accounts and which have displayed a material movement (greater than £1m) compared to the previous financial year.

During 2017/18 we did not allocate any expenditure as "atypical". For this reason, the breakdown of total expenditure in Table 4J is therefore exactly the same as the breakdown reported in Table 4D.

Table 4K

This is not applicable to Bristol Water.

4L Enhancement expenditure by purpose - wholesale water for the year ended 31 March 2018

Expenditure in report year

Expenditure in report year											
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m				
A	Enhancement expenditure by purpose										
1	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
2	0.000	0.123	0.000	0.000	0.000	0.000	0.123				
3	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
4	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
5	0.000	0.000	0.000	0.000	0.000	0.088	0.088				
6	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
7	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
8	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
9	0.000	0.000	0.000	0.000	0.000	5.404	5.404				
10	0.000	0.000	0.000	0.000	0.000	4.240	4.240				
11	0.000	0.000	0.000	0.000	0.000	2.386	2.386				
12	0.000	0.333	0.000	0.000	0.419	0.000	0.752				
13	0.000	0.000	0.000	0.000	0.000	11.733	11.733				
14	0.000	0.011	0.000	0.000	0.128	0.075	0.214				
15	0.000	0.026	0.000	0.000	0.000	0.000	0.026				
16	0.000	0.000	0.000	0.000	0.000	0.000	0.000				
17	0.000	0.000	0.000	0.000	0.000	1.436	1.436				
18	0.000	0.000	0.000	0.000	0.000	1.664	1.664				
19	0.000	0.000	0.000	0.000	0.000	0.038	0.038				
20	0.000	0.080	0.000	0.000	0.000	0.000	0.080				
35	0.000	0.573	0.000	0.000	0.547	27.064	28.184				
Total enhancement capital expenditure											

4L Enhancement expenditure by purpose - wholesale water (continued)

for the year ended 31 March 2018

Cumulative expenditure on schemes completed in the report year

Cumulative expenditure on schemes completed in the report year									
A	Enhancement expenditure by purpose	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m	
1	NEP - Making ecological improvements at abstractions (Habitats Directive, SSSI, NERC, BAPs)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
2	NEP - Eels Regulations (measures at intakes)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
3	Addressing low pressure	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
4	Improving taste / odour / colour	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
5	Meeting lead standards	0.000	0.000	0.000	0.000	0.000	0.088	0.088	
6	Supply side enhancements to the supply/demand balance (dry year critical / peak conditions)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
7	Supply side enhancements to the supply/demand balance (dry year annual average conditions)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
8	Demand side enhancements to the supply/demand balance (dry year critical / peak conditions)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
9	Demand side enhancements to the supply/demand balance (dry year annual average conditions)	0.000	0.000	0.000	0.000	0.000	1.884	1.884	
10	New developments	0.000	0.000	0.000	0.000	0.000	4.240	4.240	
11	New connections element of new development (CPs, meters)	0.000	0.000	0.000	0.000	0.000	2.386	2.386	
12	Investment to address raw water deterioration (THM, nitrates, Crypto, pesticides, others)	0.000	0.333	0.000	0.000	6.508	0.000	6.841	
13	Resilience	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
14	SEMD	0.000	0.011	0.000	0.000	0.128	0.075	0.214	
15	NEP - Investigations	0.000	0.026	0.000	0.000	0.000	0.000	0.026	
16	Improvements to river flows	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
17	Metering (excluding cost of providing metering to new service connections)- meters requested by optants	0.000	0.000	0.000	0.000	0.000	1.436	1.436	
18	Metering (excluding cost of providing metering to new service connections)- meters introduced by companies	0.000	0.000	0.000	0.000	0.000	1.664	1.664	
19	Metering (excluding cost of providing metering to new service connections)- other	0.000	0.000	0.000	0.000	0.000	0.038	0.038	
20	Nep – Water Framework Directive measures (Other category)	0.000	0.080	0.000	0.000	0.000	0.000	0.080	
35	Total enhancement capital expenditure	0.000	0.450	0.000	0.000	6.636	11.811	18.897	

Section 4: Additional regulatory information (continued)

Table 4L reports capital expenditure on enhancement schemes in line with Ofwat's expenditure purpose categories as set out in the table. Expenditure is reported as actual annual expenditure for 2017/18 on enhancement schemes and the cumulative expenditure for enhancement schemes which have commenced since April 2015 and which finished in 2017/18. Projects completed in 2017/18 are reported as finished when there is no further spend forecast on the project beyond March 2018. For rolling investment projects (projects which repeat each year and therefore incur costs every year, for example stop tap replacement) we work on the basis that the end of a financial year represents the end of each of these projects, and hence 2017/18 expenditure on these rolling investment projects is also reported as the cumulative expenditure for 2017/18.

Table 4L links with Table 4D and Table 4J. The total annual enhancement expenditure in Table 4L reconciles with the total of: Table 4D line 4D.14 to 4D.16, and equivalently the totals of 4J.14 to 4J.16¹.

For 2017/18 we reported £28.373m enhancement expenditure, an increase of £9.498m from the previous year. The Table 4L lines which show the biggest increases in 2017/18 compared to 2016/17 are line 4L.13 (Resilience), which is explained in part by the increased spend on the large Southern Resilience Scheme, and also lines 4L.8 (Demand Side Enhancements) and 4L.9 (New

Developments). It should be noted that while there was a large spend on the Southern Resilience Scheme in 2017/18, this is not reported under 2017/18 cumulative expenditure, as further expenditure in 2018/19 is forecast, albeit a much lower value.

Direct comparison of cumulative enhancement expenditure with last year is not possible given changes in the reporting requirements introduced this year. Ofwat previously required cumulative spend to be reported as the total of year on year successive spending since 2015/16, this definition of cumulative has now been updated to report the total spend of projects based on the year in which the project is completed.

In addition to the expenditure by purpose categories set out by Ofwat, there is also opportunity to allocate expenditure to other categories additional to those prescribed. In line 4P.20 we show expenditure relating to NEP, in particular the Water Framework Directive measures. We have chosen to report this as a freeform line in the APR to provide alignment with the reporting of WS2 and WS2a, Line 18 of the business plan tables and this reflects the inclusion of NEP Water Framework Directive measures as a prescribed expenditure purpose category in the PR19 data tables but not in the APR.

Tables 4M-4O

These are not applicable to Bristol Water.

¹This equivalence between table 4D and 4J is due to Bristol Water not reporting any atypical expenditure for table 4J

4P Non-financial data for WR, WT and WD

Wholesale Water – Water Resources
for the year ended 31 March 2018

	Current year
A Water resources	
1 Proportion of distribution input derived from impounding reservoirs	0.221
2 Proportion of distribution input derived from pumped storage reservoirs	0.609
3 Proportion of distribution input derived from river abstractions	0.000
4 Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	0.170
5 Proportion of distribution input derived from artificial recharge (AR) water supply schemes	0.000
6 Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	0.000
7 Number of impounding reservoirs	3
8 Number of pumped storage reservoirs	8
9 Number of river abstractions	0
10 Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	14
11 Number of artificial recharge (AR) water supply schemes	0
12 Number of aquifer storage and recovery (ASR) water supply schemes	0
13 Total number of sources	25
14 Total number of water reservoirs	11
15 Total capacity of water reservoirs	38,604 MI
16 Total number of intake and source pumping stations	15
17 Total number of raw water transfer stations	8
18 Total capacity of intake and source pumping stations	6,794 kW
19 Total capacity of raw water transfer pumping stations	3,584 kW
20 Total length of raw water mains and conveyors	130.74 km
21 Average pumping head – resources	19.95 m.hd
22 Average pumping head – raw water transport	44.37 m.hd

Proportion of DI derived from and number of sources by type (Lines 4P1-4P13)

These lines report on the number of sources we used and the proportions of water abstracted from them. In 2017/18 Bristol Water abstracted water from 25 sources; the majority of which came from surface water sources, in particular impounding (gravity fed) reservoirs and pumped storage reservoirs; which is

consistent with previous years.

Bristol Water has restated the historic 2011/12 to 2016/17 values for the Proportion of DI by source type (Lines 4P1-4P6), reflecting improvements after an error was identified in the previous reporting. This error concerned how import and export volumes had previously been accounted for. Historic reporting had taken the daily volumetric

rate of imports and exports multiplied by 365 days, as oppose to taking the annual rate which is the required reporting method. Ofwat has been notified of these changes to Lines 4P1, 2 and 4 with a movement in the figures of between 0.47% and 2%.

Section 4: Additional regulatory information (continued)

Number and Capacity of Water Reservoirs, Intake and Source Pumping Stations, and Raw Water Transfer Pumping Stations (Lines 4P14-19)

These lines report on the number of assets Bristol Water operated in 2017/18 which store and transfer raw water in our raw water network (between our sources and treatment works), and their associated water capacities. Whilst intake and source pumping stations refer to sites which directly draw water from our sources into the raw water network, transfer pumping stations refer to sites which pump water within the raw water network. Bristol Water has 11 raw water reservoirs with a combined capacity of 38,604 Ml and 23 pumping stations enabling the transfer of water from the environment to our treatment works; which is consistent with previous years.

Lines 4P17 "Total number of raw water transfer pumping stations" and 4P19 "Total capacity of raw water transfer pumping stations" are new reporting requirements. These new lines are the outcome of a technical study of reporting requirements undertaken by Jacobs for Ofwat (October 2017) and are intended to improve data quality across all companies due to greater clarity on definitions for pumping stations and their capacities. Previously all pumps and their collective capacity were reported solely under lines capturing the Number and separately Capacity of "intake and source pumping stations". These new lines require companies to allocate pumps and their respective

capacity to be either intake and source pumps or raw water transfer.

Historic figures (2011/12 to 2016/17) for the reporting of line 4P18 on the "Total Capacity of Intake and Source Pumping Stations" have been restated to reflect improvements in data reporting capabilities at a site level with regard to accuracy compared to last year. This has led to a slight decrease in the known overall KW rating (capacity) of our pumping stations from 10392KW to 10378KW, a change of less than 1%.

Total length of raw water mains and conveyors (Lines 4P20)

This line reports on the total length of pipes which transport raw water either between sources or from source to treatment works. We operate 130.74km of pipes for this purpose. To note, this figure exclude pipes located within the boundary of Bristol Water sites (23.58km) but includes lengths of ducts and culverts (10.74km).

Average Pumping Head (Water Resources and Raw Water Transport Lines 4P21-22; Treatment Line 4P54 and Distribution 4P90)

Average pumping head is a measure of the amount of pumping that a company needs to do in order to transport water from our sources to our customers' taps. In order to do this we need to know, in effect, how much each megalitre of water is pumped through the process, from abstraction to supply. This cannot be measured in practice and therefore the average pumping requirements are

estimated by using a formula developed by Ofwat for individual sites. Sites are then allocated within the business units (Water Resources, Raw Water Transport, Treatment, and Distribution) and summated to provide the final reported figures for lines 4P21-22, 4P54 and 4P90 respectively. In October 2017, Ofwat commissioned Jacobs to undertake a technical study of the reporting requirements for Average Pumping Head. This led to the publication of a revised formula for the calculation of average pumping head; published values for 2017/18 (and all historic years) are compliant with this new requirement.

Our assurance processes have identified the need to restate our historical figures (for 2011/12 to 2016/17) for Average Pumping Head, not only to ensure compliance with the revised formula but also to correct errors identified with regard to gravity flows used in the application of the formula and the sourcing of information on volumes of water pumped from our monitoring equipment located at pumping sites. This has led to changes of up to 20% on the original figures, when looking at average pumping head in aggregate across the four business units. Report values for 2017/18 are broadly in line with previous years.

4P Non-financial data for WR, WT and WD (continued)

Wholesale water – Water Treatment
for the year ended 31 March 2018

	Current year
B Water treatment	
23 Total water treated at all SW simple disinfection works	0.00 Ml/d
24 Total water treated at all SW1 works	0.00 Ml/d
25 Total water treated at all SW2 works	0.00 Ml/d
26 Total water treated at all SW3 works	0.00 Ml/d
27 Total water treated at all SW4 works	26.53 Ml/d
28 Total water treated at all SW5 works	217.62 Ml/d
29 Total water treated at all SW6 works	0.00 Ml/d
30 Total water treated at all GW simple disinfection works	3.71 Ml/d
31 Total water treated at all GW1 works	0.00 Ml/d
32 Total water treated at all GW2 works	0.00 Ml/d
33 Total water treated at all GW3 works	0.00 Ml/d
34 Total water treated at all GW4 works	34.37 Ml/d
35 Total water treated at all GW5 works	0.00 Ml/d
36 Total water treated at all GW6 works	0.00 Ml/d
37 Total water treated at more than one type of works	0.00 Ml/d
38 Total number of SW simple disinfection works	0
39 Total number of SW1 works	0
40 Total number of SW2 works	0
41 Total number of SW3 works	0
42 Total number of SW4 works	1
43 Total number of SW5 works	5
44 Total number of SW6 works	0
45 Total number of GW simple disinfection works	2
46 Total number of GW1 works	0
47 Total number of GW2 works	0
48 Total number of GW3 works	0
49 Total number of GW4 works	8
50 Total number of GW5 works	0
51 Total number of GW6 works	0
52 Number of treatment works requiring remedial action because of raw water deterioration	0
53 Zonal population receiving water treated with orthophosphate (000s)	1,200.189
54 Average pumping head – treatment	8.14 m.hd

Total water treated at and number of WTW by complexity category (Lines 4P.23-51)

These lines provide a breakdown on the number of Treatment Works and the average daily distribution input derived from them, based upon the number and complexity of treatment processes operational at each site and whether they treat ground water or surface water. Ofwat has developed categories which

seek to differentiate between Treatment Works with few, low complexity and low cost processes compared to works with several high complexity and high cost processes as set out in the table below.

In 17/18, Bristol Water operated 10 ground water works, two of which are simple disinfection works and the remaining eight all treat water at a Level 4 complexity. Of Bristol Water's six surface

water works operational in 17/18, one treats water at Level 1 complexity and the remaining five treat water at Level 5 complexity. This operational set-up of our treatment works has been the same for the last three years (2015/16 to 2017/18).

Treatment Complexity Categories	
Categories of treatment types	Examples
SD: Works providing simple disinfection only	<ul style="list-style-type: none"> • Marginal chlorination • Pre-aeration
W1: Simple disinfection plus simple physical treatment only	<ul style="list-style-type: none"> • Rapid gravity filtration • Slow sand filtration • Pressure filtration
W2: Single stage complex physical or chemical treatment	<ul style="list-style-type: none"> • Super chlorination • Coagulation • Flocculation
W3: More than one stage of complex treatment; but excluding processes in W4, W5 or W6.	<ul style="list-style-type: none"> • Biofiltration • pH correction • Softening
W4: Single stage complex physical or chemical treatment with significantly higher operating costs than in W2/W3	<ul style="list-style-type: none"> • Membrane filtration (excluding desalination) • Ozone addition • Activated carbon / pesticide removal
W5: More than one stage of complex, high cost treatment	<ul style="list-style-type: none"> • UV treatment • Arsenic removal • Nitrate removal
W6: Works with one or more very high cost processes	<ul style="list-style-type: none"> • Desalination • Re-use

In 17/18, Bristol Water operated 10 ground water Treatment Works, two of which are simple disinfection works and the remaining eight all treat water at a Level 4 complexity. Of our six surface water Treatment Works operational in 17/18, one treats water at Level 1 complexity and the remaining five treat water at Level 5 complexity. This operational set-up of our Treatment Works has been the same for the last three years (15/16 to 17/18).

Over two-thirds of the total volume of treated water entering our distribution network on a daily basis is derived from surface water Treatment Works treating water at Level 5 (77.1%, 217.62Ml/d). This relates to our works at Purton, Littleton, Stowey, Banwell and Barrow; therefore whilst we operate more ground water Treatment Works than surface water Treatment Works, the latter are larger and contribute more to our overall distribution input (with 12.2% coming from GW4 works). Reflecting that there have been

no changes to our operational set-up since 2014/15, the daily distribution input derived from our Treatment Works, based upon Ofwat's complexity categories, has showed little movement over this period.

Section 4: Additional regulatory information (continued)

Number of treatment works requiring remedial action because of raw water deterioration (Line 4P52)

Line 4P52 on the number of water Treatment Works where activity has taken place to improve the works as a result of raw water deterioration. Such activity should be supported by the Drinking Water Inspectorate (DWI) in order to justify inclusion of the respective works in the reporting of this line.

In 17/18, no activity at our works was undertaken at our Treatment Works due to raw water deterioration. This reflects a decrease from 16/17 when a UV treatment process was installed at Barrow Treatment Works due to deterioration in the raw water entering the works as a result of *Cryptosporidium*. Completion of this scheme was signed off by the DWI in February 2018.

Zonal Population receiving water treated with orthophosphate (Line 4P53)

Line 4P53 reports on the number of people served by Bristol Water that received water treated with phosphate in 17/18. The method for estimating this involves subtracting the number of people not receiving water treated with phosphate (7394 people) from the number of people we serve in total, Line 4Q15 (1,207,583 people). Four of our 16 Treatment Works do not add phosphate to the water as a treatment process. These are our Treatment Works at Tetbury, Forum, Sherborne and Alderley. Customers receiving

water from the latter three receive water which is a blend of water from one of Forum, Sherborne and Alderley and another Works, therefore the water they receive does, through mixing, contains phosphate. Only customers receiving water from Tetbury Treatment Works receive water with no phosphate added.

The population receiving water from Tetbury Treatment Works is estimated by multiplying the number of properties supplied from the works by the average number of people living in each property (the occupancy rate), which we have assumed to be 2.31 occupants per property, in line with our water balance assumptions.

For 17/18, we reported 1,200,189 people as having received water treated with orthophosphate which is slightly higher than that reported last year (1,194,768 people, 1% change), due to the growth in our overall population supplied.

4P Non-financial data for WR, WT and WD (continued)

Wholesale water – Water Distribution
for the year ended 31 March 2018

		Current year
C	Water distribution	
55	Total length of potable mains as at 31 March	6,828.1km
56	Total length of mains relined	0.0 km
57	Total length of mains renewed	16.2 km
58	Total length of new mains	60.1 km
59	Potable water mains (<320mm)	6,277.5 km
60	Potable water mains 320mm - 450mm	232.1 km
61	Potable water mains 450mm - 610mm	192.0 km
62	Potable water mains > 610mm	125.7 km
63	Total length of non-potable and partially treated main for supplying customers	0.0 km
64	Total length of non-potable and partially treated main for treatment	17.4 km
65	Capacity of booster pumping stations	24,387 kW
66	Capacity of service reservoirs	537ML
67	Capacity of water towers	3 ML
68	Distribution input	279.01 ML/d
69	Water delivered (non-potable)	0.25 ML/d
70	Water delivered (potable)	239.74 ML/d
71	Water delivered (billed measured residential)	72.81 ML/d
72	Water delivered (billed measured business)	59.84 ML/d
73	Total leakage	46.64 ML/d
74	Distribution losses	34.93 ML/d
75	Water taken unbilled	0.68 ML/d
76	Number of lead communication pipes	149,055
77	Number of galvanised iron communication pipes	8,676
78	Number of other communication pipes	319,154
79	Number of booster pumping stations	113
80	Total number of service reservoirs	112
81	Number of water towers	5
82	Total length of mains laid or structurally refurbished pre-1880	127.5 km
83	Total length of mains laid or structurally refurbished between 1881 and 1900	853.2 km
84	Total length of mains laid or structurally refurbished between 1901 and 1920	477.6 km
85	Total length of mains laid or structurally refurbished between 1921 and 1940	920.5 km
86	Total length of mains laid or structurally refurbished between 1941 and 1960	896.3 km

4P Non-financial data for WR, WT and WD (continued)

Wholesale water – Water Distribution
for the year ended 31 March 2018

	Current year
87 Total length of mains laid or structurally refurbished between 1961 and 1980	1,294.5 km
88 Total length of mains laid or structurally refurbished between 1981 and 2000	1,250.8 km
89 Total length of mains laid or structurally refurbished post 2001	1,007.5 km
90 Average pumping head – distribution	103.08 m.hd

Total length of mains (Lines 4P55-64)

Lines 4P55-62 report on the length of mains that transport water of drinking water quality in our treated water distribution network (from treatment works to customers) and Bristol Water activities associated with the relining and renewing of mains in 2017/18. At the 31 March 2018, we had 6828.1km of mains in operation for the purpose of transporting drinking water, which has been slowly increasing over time reflecting the addition of new mains laid to the total reported figure. In 2017/18 we added 60km of new mains to our treated water distribution network (Line 4P58), a level of activity slightly higher than the long run average which reflects the completion of the Southern Resilience Scheme (March 2018) which involved the laying of 30km of new mains to improve security of supply for over 280,000 customers in the Weston-super-Mare, Cheddar, Burnham and South Bristol area by enabling homes in these areas to be supplied by more than one treatment works.

In addition to laying new mains, in 17/18 we also undertook 16.2km of mains renewal (Line 4P57) an 8.7% increase compared to last year (14.9km). Consistent with previous years we have not undertaken any mains relining activities and this reflects our current approach to asset management. To note, we do however undertake slip lining as a mains rehabilitation technique and this involves inserting a new mains into an old one; such slip lining activities are included in Line 4P57.

Lines 4P59-62 report on the total length of mains in our treated water distribution

network, broken down by diameter. To note, as with the reporting of line 4P20, Lines 4P55-62 exclude all lengths of mains located inside Bristol Water site boundaries.

Total length of non-potable and partially treated mains (Lines 4P63-64)

Line 4P64 is a new reporting requirement for 17/18 which identifies the total length of mains used for transporting raw water or partially treated water for treatment. It is closely related to Line 4P20. Bristol Water operates 17.4km of mains for this purpose and this relates to a single pipe between two of our largest treatment works, Purton and Littleton. Water treated at Littleton is transferred from the Purton site and can, during times of warm weather, be partially treated at Purton first to prevent zebra mussels growing on parts of the pipe, which can pose a water quality hazard.

Bristol Water supplies one non-household customer with non-potable water. The main associated with supplying this customer is 6m in length and therefore in terms of the reporting for Line 4P63 expressed in kilometres and accurate to 1 decimal place we have reported 0.0km for the total length of non-potable or partially treated mains for supplying customers.

Capacity and number of booster pumping stations, service reservoirs and water towers (Lines 4P65-67 and 4P79-81)

Lines 4P65-67 and Lines 4P79-81 report on the total number and the total design capacity of booster pumping stations, service reservoirs and water towers which either pump or store water of drinking water quality within the treated water distribution network.

Our assurance process has identified the need to restate our historical figures (for 2011/12 to 16/17) for the reporting of lines 4P65-66 and 4P79-80. This reflects improved internal data reporting processes that have enabled asset information of increased accuracy to become available on previous years. The changes made have largely been within 5% of the original value, with the exception of the last three years of data for Line 4P66, where changes were between 6.3% and 6.5%.

Distribution Input (Line 4P68)

Distribution input is the average daily amount of drinking water entering the distribution network from our treatment works and net imports, including bulk supply agreements and excluding inset agreements (the provision of water to third party entities that operate water networks independent of our own). Distribution input has increased slightly compared to last year (+2.2%).

Consistent with our approach to water balance calculations used for reporting leakage and the development of our Water Resource Management Plan, we have reported a post-MLE figure which means we have used a methodology for the reporting of Distribution Input that makes a maximum likelihood estimation (MLE).

Water Delivered (Lines 4P69-72)

Lines 4P69-72 provides information on the volume of water delivered by Bristol Water, both in terms of potable and non-potable supplies (Lines 4P69-70), and separately in terms of business and residential customers billed by meters, both business and households (4P71-72).

As set out in the reporting of Line 4P63, Bristol Water supplies non-potable water to one non-household customer, whom in 17/18 received on average 0.25 Ml/d (Line 4P69). In 17/18 Bristol Water delivered 239.74 Ml/d of potable water (Line 4P70), which includes the average volume of water delivered to billed metered customers, both residential and businesses, an estimate of the volume of water delivered to billed unmetered (rateable value) customers, both residential and business, supply pipe leakage (that is the loss of water from either company or customer pipes in the treated water distribution network), unbilled water taken legally for legitimate purposes (e.g. emergency services) and water taken illegally (where this is known and measurable). The average volume of potable water delivered has increased slightly (+1.8%) compared to last year (235.38Ml/d).

In terms of potable water delivered to measured residential customers, the average daily volume delivered to customers has increased by 9.5% compared to last year, attributable to the increase in measured customers due to optants, new connections and our change of occupier metering programme. In contrast the average daily volume delivered to businesses has decreased slightly by 0.1%.

Further information on the assumptions used to report these lines can be found below.

Leakage, Distribution losses and Water taken unbilled (Lines 4P73-75)

Leakage (4P73) reports on the average daily volume of water that is supplied to customers' homes but which for various reasons is lost between the treatment works and customer taps; it captures the amount of water that enters our treated water distribution system but is not delivered to customers because it is lost from either the Company's or customers' pipes. Such losses are either categorised as distribution losses (4P73) or supply pipe losses.

Distribution losses refer to the average daily volume of water lost from Bristol Water's treated water distribution network (Line 4P74) in comparison to supply pipe losses which refers to the loss of water from pipes located within the boundaries of customer's properties and which connect from Bristol Water's distribution network to individual customer homes. Due to the relative size of Bristol Water's distribution pipes compared to supply pipes, distribution losses are higher than supply pipe losses.

Water taken unbilled (Line 4P75) refers to the average daily volume of water used which has not been paid for (either legally or illegally). It excludes water used by the company for example for carrying out mains testing, pipe cleaning and similar activities.

Bristol Water has identified leakage reduction as a key commitment for the period 2015/16 to 2019/20 and our performance against targets is explicitly assessed by Ofwat as part of the Outcome Delivery Incentive (ODI) framework, which is discussed further in Section 3A.

We have opted to report our 17/18 leakage figure using two different methodological assumptions, which relate to a specific component of the calculation called Non-household Night use (NHHNU) which analyses business water usage at night. To inform our reporting of leakage in Section 3A we have assumed a NHHNU of 19.3 litres per property per hour (l/prop/hr), which is consistent with the target definition for leakage performance agreed with Ofwat at PR14. To inform our leakage reported value in Line 4P73 we have used an updated assumption for NHHNU of 22.95 l/prop/hr. This explains the difference between our reported value in Table 3A (47.4 Ml/d) and Line 4P73 (46.64 Ml/d), the latter being the more accurate value of the average daily amount of leakage lost in our treated water distribution network.

This NHHNU assumption 22.95 l/prop/hr also forms part of the calculation used to report on Lines 4P69-75. For more

details on leakage performance compared to last year please see the supporting commentary to Section 3A. Both distribution losses and water taken unbilled have increased slightly compared to last year.

Number of communication pipes by material (Lines 4P76-78)

Communication pipes refer to the small pipes which connect distribution mains to individual customers' homes. Lines 4P76-78 present a breakdown of Bristol Water's communication pipes by material type, split by lead, galvanised iron and other. 31% of Bristol Water's communication pipes are made from lead, with just over two-thirds (67%) classified as other which largely includes different types of plastic and just under 2% are made from galvanised iron.

Total length of mains by age (Lines 4P82-89)

Lines 4P82-89 present asset information on the total length of mains as allocated to 20-year time intervals according to when the mains were laid or structurally refurbished. With the exception of 27.2km of mains structurally refurbished between 2002 and 2009 (reported in Line 4P89), all lengths reported relate to mains laid. This information provides high level insight into the overall age of Bristol Water's mains, as one of the oldest companies in the water sector in the UK and Europe.

For some mains, lack of historical information means that their age is unknown. Where this is the case and we know the material of the main we have allocated it to a cohort when the laying of that particular material pre-dominated - this methodology is possible because in the course of Bristol Water's history there has been a pattern in the use of mains material, reflecting for example improved technologies. For mains where both the age and material of the main is unknown, we have assumed a split based upon the material composition of mains for which we known both the age and material and allocated the mains accordingly. There has been little change in the reporting of these lines compared to last year.

4P Non-financial data for WR, WT and WD (continued)

Wholesale water - Band Disclosure
for the year ended 31 March 2018

		Units	Current year
D	Band Disclosure (nr)		
91	WTWs in size band 1	Nr	5
92	WTWs in size band 2	Nr	1
93	WTWs in size band 3	Nr	2
94	WTWs in size band 4	Nr	2
95	WTWs in size band 5	Nr	3
96	WTWs in size band 6	Nr	2
97	WTWs in size band 7	Nr	1
98	WTWs in size band 8	Nr	0

		Current year
E	Band Disclosure (%)	
99	Proportion of Total DI band 1	1.2%
100	Proportion of Total DI band 2	0.7%
101	Proportion of Total DI band 3	3.3%
102	Proportion of Total DI band 4	8.3%
103	Proportion of Total DI band 5	21.9%
104	Proportion of Total DI band 6	33.4%
105	Proportion of Total DI band 7	31.3%
106	Proportion of Total DI band 8	0.0%

Water treatment works by size band (Lines 4P:91-106)

Lines 4P:61-106 provide information on the relative size of our water treatment works, according to the contribution that each site provides to our distribution input, as per the table below.

Size Band	Distributed Input MI/d
Band 1	< 2
Band 2	≤ 2 & < 4
Band 3	≤ 4 & < 8
Band 4	≤ 8 & < 16
Band 5	≤ 16 & < 32
Band 6	≤ 32 & < 64
Band 7	≤ 64 & < 128
Band 8	≥ 128

The information captured includes both the number of treatment works by size band and the total contribution that works in each size band make to our overall daily distribution value.

4Q Non-financial data

Properties, population and other - Wholesale water - Properties and Population for the year ended 31 March 2018

		Units	Current year
A	Properties and population		
1	Residential properties billed for measured water (external meter)	000	216.578
2	Residential properties billed for measured water (not external meter)	000	33.585
3	Business properties billed measured water	000	31.380
4	Residential properties billed for unmeasured water	000	239.792
5	Business properties billed unmeasured water	000	1.371
6	Total business connected properties at year end	000s	33.505
7	Total residential connected properties at year end	000s	502.633
8	Total connected properties at year end	000	536.138
9	Number of residential meters renewed	000	1.509
10	Number of business meters renewed	000s	0.467
11	Number of meters installed at request of optants	000	4.551
12	Number of selective meters installed	000	10.202
13	Total number of new business connections	000	0.257
14	Total number of new residential connections	000	4.912
15	Total population served	000	1,207.583
16	Number of business meters (billed properties)	000	34.811
17	Number of residential meters (billed properties)	000	263.977
18	Company area	km2	2,367

Number of properties billed and connected and number of meters renewed and installed (Lines 4Q.1-14 and 4Q.16-17)

During 17/18 properties and population numbers have continued to increase at a steady rate (1% pa). At 4,912, new household connections have been at their highest rate for the last 7 years (an average annual rise of 13%). Meter optant levels have dropped by 14% on last year, despite targeted initiatives to promote domestic metering. Selective metering on change of occupier has shown a significant increase on the previous year of 175% (from 3,712 to 10,202) and reflects the Company's efforts to meet its meter penetration commitments for the period.

Total Population Served (Lines 4Q.15)

In 17/18 Bristol Water served 1,207,583 customers, an increase of 1% in line with new connections. We use population estimates by postcode within our water supply area provided by a third party to inform our reporting of line 4Q.15. We receive this information annually and then take an average between the population reported this year with the previous year. Further minor adjustments are then made to exclude properties within our supply area we know not to be our customers (private supply).

Company Area (Line 4Q.18)

Bristol Water's company area covers

2,367km², a coverage which has stayed stable for some time. This includes areas where water is provided separately according to inset agreements (the provision of water to third party entities who operate water networks independent of our own), however excludes the one kilometre squared area operated by independently by Peninsula Water in the Westonbirt area.

4Q Non-financial data (continued)

Properties, population and other - Wholesale water - Other
for the year ended 31 March 2018

		Current year
B	Other	
19	Number of lead communication pipes replaced for water quality	86
20	Total supply side enhancements to the supply demand balance (dry year critical / peak conditions)	0.00 MI/d
21	Total supply side enhancements to the supply demand balance (dry year annual average conditions)	0.00 MI/d
22	Total demand side enhancements to the supply demand balance (dry year critical / peak conditions)	0.49 MI/d
23	Total demand side enhancements to the supply demand balance (dry year annual average conditions)	0.49 MI/d
24	Energy consumption - network plus	67,606 kWh
25	Energy consumption - water resources	18,628 MWh
26	Energy consumption - wholesale	86,234 MWh
27	Peak factor	129.37%
28	Mean Zonal Compliance	99.93%
29	Volume of Leakage above or below the sustainable economic Level	-9.360 MI

Number of lead communication pipes replaced for water quality Line 4Q19

In 17/18, Bristol Water replaced 86 lead communication pipes for water quality reasons. This is in line with our requirements as set out by the Drinking Water Inspectorate (DWI), which oversees the activities of water companies to ensure that the water provided is safe to drink through the setting of regulatory and water quality standards. The DWI's Water Quality Regulations 2000 sets out our operational requirements for lead replacements during the period April 2015 to March 2020 to include all lead pipes supplying primary schools and all lead pipes supplying properties where lead sampling results are found to be greater than or equal to 8µg/l of which we have replaced a total of 86 pipes this financial year.

Whilst we have a legal notice in the Water Quality Regulations 2000 to undertake "Opportunistic replacement of lead communication pipes during planned mains renewal work", we do not have to report this to the DWI.

Opportunistic replacements refer to lead communication pipe replacements undertaken because we are doing mains renewal work in the vicinity, not primarily because there is a water quality rationale for replacement. As we do not have to report this "opportunistic" activity to DWI and the primary reason for the work is not because of water quality reasons, we have not reported such opportunistic lead communication pipe replacements in the reporting of Line 4Q19.

Our assurance process for reporting of Line 4Q19 has identified differences between the numbers identified on our works management system and the record of activity held by our Water Quality team. A reconciliation process between the two sets of data has now been carried out, resulting in changes to the historic data reported for the period 2011/12 to 16/17.

Supply and Demand side enhancements to the supply demand balance (4Q.20-23)

Lines 4Q.20-23 report on improvements made to increase the supply of water or decrease the consumption of water to ensure that in the long run Bristol Water can sustain water supplies to meet demand, in both annual average conditions and critical / peak conditions. We have identified there is not a need to undertake supply side improvements during the period 15/16 to 19/20 and therefore both Lines 4Q.20 and 4Q.21 are both reporting as zero.

We have, however, been undertaking demand side improvements, in the form of pressure management activities in 17/18 which have resulted in an overall improvement of 0.49 MI/d. As Bristol Water is not critical peak sensitive, 0.49 MI/d has been reported for both Line 4Q.22 and 4Q.23, consistent with Ofwat's reporting requirements (RAG 4.07). Without these demand side improvements, we would expect total leakage to be higher and our supply-demand balance position to be less desirable than present.

Our assurance activities have identified the need to restate our historic figures for the reporting of our demand side improvements for the historic years 2011/12 to 16/17. This reflects correction of an error in the regulatory requirement that where a company is not critical peak sensitive the value reported against the dry year annual average conditions (Line 4P.23) should also be reported against the dry year critical conditions (Line 4P.22). A further correction has also been made with regard to recording when the MI/d benefits are realised compared to when the improvement scheme was actually implemented. Our previous reporting had acknowledged both the lagged and cumulative effects that a scheme implemented in one year may not realise benefits until the following year and the subsequent years beyond that. We understand that this approach has been over-stating the MI/d benefits and therefore we have restated the

historical figures to only report on the benefits realised in the year in which the improvement activity took place.

Energy Consumption (Lines 4Q.24-26)

Energy Consumption is a measure of energy usage including electricity, gas and liquid fuels. Lines 4Q.24-26 report on total energy usage by business area (water resources and network plus) but does not distinguish between energy that is purchased from third parties to that which is generated and used by Bristol Water (as oppose to then being sold on). Energy usage covers all our operations, including fleet transportation, pumping, operating water treatment works and running administrative buildings. Line 4Q.26 is the summation of Lines 4Q.24 and 4Q.25.

Variability in energy consumption is due to changes in demand and seasonal affects. Electricity accounts for 94% of the energy we consume and is therefore the main driver for any change in consumption across the business areas. Overall, the energy used in 17/18 was 8.6% lower than in 16/17. Bristol Water is proactively seeking out opportunities to reduce our own energy consumption further through pumping efficiency and optimisation improvements as well as investing in renewable energy sources.

Our assurance processes have identified the need to restate our historical figures (for 2011/12 to 16/17) for energy consumption due to previous errors made in the conversion of fuel used for heating and transport to the equivalent electrical energy. This has resulted in a change to the historical energy consumption figures of between 1 and 13%.

Peak Factor (Line 4Q.27)

Peak factor is defined as the maximum daily consumption expressed as a percentage of the average consumption. It is a measure which seeks to capture by how much peak demand for water compares to the average demand. The peak factor for 17/18 was 129.37% which

was 3.39 percentage points higher than last year (125.98%).

Mean Zonal Compliance (Line 4Q.28)

Mean Zonal Compliance (MZC) is a Drinking Water Inspectorate (DWI) measure which it uses to assess overall water quality compliance based on 39 individual components that covers various aspects of risk to public health.

Our performance against MZC targets is explicitly assessed by Ofwat as part of the Outcome Delivery Incentive (ODI) framework, which is discussed further in Section 3A.

In 17/18 our reported figure for MZC is 99.93%, a decrease in performance compared to last year (99.97%). For more details on MZC performance compared to last year please see the supporting commentary to Section 3A.

Volume of Leakage above or below the sustainable economic level (Line 4Q.29)

The volume of leakage above or below the sustainable economic level provides a comparison between the leakage calculated for the reported year (Line 4P.73) and the economic level of leakage which we have estimated to be 56 MI/d for the period 15/16 to 19/20. The economic level of leakage identifies the level of leakage at which any further reduction would incur costs greater than the benefits realised from the water savings. In 17/18 we have reported Line 4Q.29 as -9.360 MI/d.

Our assurance process has identified a calculation error in the historic reporting of Line 4Q.29 for 15/16, which wrongly assumed as a component that the economic level of leakage was 57 not 56 MI/d, therefore this has been corrected and restated.

Tables 4R-4U

These tables are not applicable to Bristol Water.

4V Operating cost analysis

water resources – opex analysis (£m)
for the 12 months ended March 2018

		Impounding Reservoir	Pumped Storage	River Abstractions	Groundwater, excluding MAR water supply schemes	Total
A	Opex analysis					
1	Power	0.827	0.759	0.002	0.335	1.923
2	Income Treated as negative expenditure	-0.001	-0.001	0.000	-0.001	-0.003
3	Local authority and Cumulo rates	0.957	0.277	0.009	0.044	1.287
4	Other direct operating expenditure	1.537	3.750	0.000	0.787	6.074
5	Other indirect operating expenditure	0.871	1.255	0.003	0.306	2.435
6	Total operating expenditure (excluding 3rd party)	4.191	6.040	0.014	1.471	11.716
7	Depreciation	6.113	0.235	0.003	0.085	6.436
8	Total operating costs (excluding 3rd party)	10.304	6.275	0.017	1.556	18.152

Bristol Water has nothing to report under Artificial Recharge (AR) or Aquifer Storage and Recovery (ASR) water supply schemes so these have been removed from the table above.

		Water resources	Raw water distribution	Water treatment	Treated water distribution	Total
B	Other expenditure - wholesale water					
9	Employment costs - directly allocated	1.172	0.403	3.833	8.175	13.583
10	Employment costs - indirectly allocated	0.778	0.109	2.214	3.386	6.487
11	Number FTEs consistent with 4V.9 above	22	8	78	204	312.000
12	Number FTEs consistent with 4V.10 above	15	2	40	55	112.000
13	Costs associated with Traffic Management Act	0.000	0.000	0.000	0.000	0.000
C	Service charges					
14	Canal & River Trust service charges and discharge consents	1.626	0.000	0.000	0.000	1.626
15	Environment Agency service charges/ discharge consents	1.152	0.006	0.093	0.001	1.252
16	Other service charges / permits	0.000	0.000	0.000	0.000	0.000
17	Statutory water softening	0.000	0.000	0.000	0.000	0.000

Section 4: Additional regulatory information (continued)

Table 4V presents a breakdown of Bristol Water's total water resources operating costs for 17/18 by the following categories: Impounding Reservoirs, Pumped Storage, River Abstractions, Groundwater, excluding MAR water supply schemes, Artificial Recharge (AR) water supply schemes and Aquifer Storage and Recovery (ASR) water supply schemes. For 17/18 Bristol Water has not reported any expenditure against Artificial Recharge (AR) water supply schemes and Aquifer Storage and Recovery (ASR) water supply schemes.

The total operating expenditure (excluding third party) in Table 4V must reconcile to the Water resources total operating expenditure excluding third party services in Table 4D.

Table 4V also includes further analysis on other expenditure relating to wholesale water and service charges, allocating them across the Ofwat business units. This breaks down the expenditure into the following categories: Water Resources, Raw Water Distribution, Water Treatment and Treated Water Distribution.

There is a significant increase in depreciation compared to prior years due to the impairment of Cheddar Reservoir No2 in the year 17/18 of £4.7m, as this scheme is no longer included within our Water Resources Management Plan.

Bristol Water considers indirectly

allocated Employment costs to be those associated with general and support functions. These reported figures include employment costs expensed to capital.

Bristol Water does not incur any costs associated with the Traffic Management Act as no Authority in the Bristol Water area has a Permit system.

Table 4W

This is not applicable to Bristol Water.

Related party transactions

Throughout the year, related parties include members and joint ventures of the Bristol Water Group Limited (previously CSE Water UK Limited) group of companies, members of the iCON Infrastructure companies, members of the Itochu Corporation group of companies and key management personnel.

The principal related parties are:

Bristol Water Group Limited (previously CSE Water UK Limited) (BWG), registered in England and Wales, whose year-end is 31 March, and is the ultimate UK holding company of Bristol Water plc.

Bristol Water Holdings UK Limited (BWHUK), registered in England and Wales, whose year-end is 31 March. BWHUK is a subsidiary of Bristol Water Group Limited (previously CSE Water UK Limited).

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 BWHUK 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 Bristol Water Holdings 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 is a joint operation undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services.

Basis of cost allocations used for management charges and allocations between the appointed and non-appointed businesses of Bristol Water plc

Costs are attributed to the appropriate cost centres in the company's accounting system, which are identified as appointed or non-appointed. The majority of non-appointed costs are incurred directly with the remainder allocated on a time apportionment basis. Apportionments and recharges between appointed and non-appointed elements are approved and agreed at Board level annually.

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service received £m
Management charge	BWG	-	No market	-
Management charge	BWHUK	-	No market	-
Managed billing service	BWBSL	15.926	Competitive Tender	2.714
Recharges for costs	BWBSL	15.926	Cost pass through	0.274
Capital expenditure	BWBSL	15.926	Cost pass through	0.134

Group tax relief

Bristol Water plc claims group tax relief from the non-regulated companies in the Bristol Water Group. The amount of the group relief claimed for 2017/18 is £3.854m. Bristol Water plc pays the standard tax rate for the period multiplied by the surrendered losses to each surrendering company. This group relief payment policy ensures that relieving losses around the group has no effect on the current tax charge of Bristol Water plc. The payment for loss relief surrendered for the period ended 31 March 2018 was settled in quarterly payments in line with the dates that the corporation tax would normally be paid.

Borrowing/lending with associated companies and related facilities

A loan of £47.000m was made to Bristol Water Holdings UK Limited, ultimate parent company of Bristol Water plc, until June 2006) in 2003/04. The unsecured loan was advanced on 12 February 2004, under an agreement dated 4 December 2003, out of the proceeds of the Artesian loans entered into during that year. The loan is due for repayment on 30 September 2033 and bears a fixed interest rate of 6.042%. Interest income of

£2.840m (2016/17: £2.840m) was received in relation to the loan during 2017/18.

A further loan of £21.500m was made to Bristol Water Holdings UK Limited in 2005/06. The unsecured loan was advanced on 13 July 2005, under an agreement dated 10 June 2005, out of proceeds of the Artesian loan entered into in that year. The loan is due for repayment on 30 September 2032 and bears a fixed interest rate of 5.550%. Interest income of £1.193m (2016/17: £1.193m) was received in relation to the loan in 2017/18.

There is a provision in both the loans that BWH UK may defer an interest payment. Interest will be payable on deferred interest as if it were a further loan, at 1% higher than the loan interest rate. This facility has never been invoked.

The sum of £0.411m (2016/17: £0.411m) is included within the debtors in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited, a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

Independent Auditors' report

to the Water Services Regulation Authority
(the WSRa) and the Directors of Bristol Water plc

Report on the Annual Performance Report

Opinion on Annual Performance Report

In our opinion, Bristol Water plc's Regulatory Accounting Statements within the Annual Performance Report have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRa (RAG1.08, RAG2.07, RAG3.10, RAG4.07 and RAG5.07) and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.10, appendix 2) set out on page 13.

What we have audited

The tables within Bristol Water plc's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating

cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis and wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J) and the related notes.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements

within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - special purpose basis of preparation

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.10, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRa. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRa's purpose. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of United Kingdom Generally Accepted

Independent Auditors' report (continued)

Accounting Practice ("UK GAAP").

Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 13-106 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting

Statements is not appropriate; or

- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements within the Annual Performance Report does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements within the Annual Performance Report, our responsibility is to read

the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements within the Annual Performance Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the Annual Performance Report and the audit

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.10, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Annual Performance Report as a whole is free from material misstatement, whether

due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Annual Performance Report.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 4Di and its accounting methodology statement(s) published on the Company's website on 13 July 2018. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit

Responsibilities for the Annual Performance Report and the audit (continued)

work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2018 on which we reported on 13 July 2018, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

[Opinion on other matters prescribed by Condition F](#)

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting

records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

PricewaterhouseCoopers LLP

Chartered Accountants and
Statutory Auditors
Bristol
13 July 2018

Directors' remuneration report

Annual Statement by 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 2018 together with our approach to remuneration for Executive Directors for 2018/19.

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.

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

In the year under review the Company has met its many challenges, delivering on the AMP6 programme for our customers whilst continuing to implement a new operating model and embedding subsequent ways of working.

The Committee continues to take a disciplined approach to ensure our remuneration framework supports the strategic direction of the Company. This section summarises the key matters considered by the Committee and decisions made during the year.

- **Salary** - A review of the impact of inflation on salaries was conducted in 2017/18 resulting in a 3.0% increase in base salary as of April 2018 for all employees, including the Chief Executive Officer ("CEO"). The Chief Financial Officer ("CFO") did not receive an increase in base salary as he has resigned from the Company. The Company consulted with representatives of the recognised Trade Unions prior to agreeing the base salary increase. This salary increase compares to the 1.5% awarded with effect from 1 April 2017.

- **Annual bonus** - The Committee gave consideration to the objectives and targets of the Company's annual bonus scheme for 2017/18, in which all employees participated during the year.

The table below sets out the annual bonus payments for executive directors awarded in respect of 2017/18. A summary of the annual bonus performance measures and the extent to which performance was achieved is set out on pages 125-126.

- **Pension** - The Company continues to operate a company stakeholder (defined contribution) scheme. All employees are now enrolled in this scheme with matching employer contributions (to a maximum employer contribution of 6%), unless they have "opted out".

Directors	Proportion of maximum bonus achieved	Bonus Payment
Mel Karam - CEO	60.0%	£82,800
Mick Axtell - CFO	Mick Axtell tendered his resignation on 6 October 2017 and left the Company on 13 July 2018. He is therefore no longer eligible to receive a bonus in respect of 2017/18.	

Directors' remuneration report (continued)

- **Long Term Incentive Plan ("LTIP")** –

The Company operates an LTIP for the CEO and CFO only. This LTIP is based on performance delivered over the AMP6 period from 1 April 2015 to 31 March 2020 and was granted on 15 May 2017. Participants can earn up to 34.2% of salary for each year of the plan based on the Company's performance against long-term strategic goals of the Company, including customer outcomes. There was no payment made in respect of the LTIP during the year as there was no payment due. Further details are provided on page 132.

- **Departing directors** – Mick Axtell, CFO, resigned on 6 October 2017 and left the company on 13 July 2018. During this period, Mr Axtell continued to receive his base salary, pension and benefits as set out in this report. Due to his resignation Mr Axtell is not eligible to receive a bonus in respect of 2017/18 or for the portion of the 2018/19 financial year during which he is in employment. Mr Axtell will be no longer eligible to receive a payment under the LTIP.

- **New appointment** – Laura Flowerdew has been appointed as CFO and she will be joining Bristol Water on 1 October 2018. She will be paid a base salary of £150,000 per annum and will be eligible to participate in the Annual Cash Incentive Plan ("ACIP") bonus scheme and LTIP from this date.

- **Implementation of remuneration policy in respect of 2018/19** –

There are two changes in remuneration policy proposed for 2018/19, relating to the ACIP annual bonus scheme:

1. The ACIP bonus will change from 90% on financial, strategic and operational business objectives and 10% on the achievement of role specific strategic objectives to 80% and 20% respectively.
 2. A malus/ clawback clause will be added to the ACIP rules in line with best practice principles.
- The annual bonus opportunity will continue to be 60% of base salary for the CEO and 30% of base salary for the CFO (Mr Axtell will not be eligible for a bonus in respect of 2018/19). The LTIP will operate as set out on page 116.

- **Remuneration and Standards of Performance** – Directors' basic salary is not linked to performance targets. However bonuses paid by the Company are based on performance against targets linked to the standards of performance of the Company. Details of bonus outcomes and performance for 2017/18 can be found on pages 125 to 126.

Tim Tutton

Remuneration Committee Chairman
13 July 2018

Directors' remuneration report (continued)

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 of Tracey Wood (resigned 19 June 2018), Chair, Rob Davis (retired 23 November 2017), Tim Tutton (Chair from 22 June 2018), Tony Hemus (resigned 19 June 2018), Paul Malan and Hajime Ichishi. Paul Francis was appointed to the Committee on 25 June 2018.

Members biographies are given on pages 98 to 99 of the Company's Annual Report and Financial Statements <https://www.bristolwater.co.uk/about-us/performance/company-financial-reports/>. The Committee was chaired by Tracey Wood until her resignation on 19 June 2018. Tim Tutton became Chair on 22 June 2018. 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, HR Director and Company Secretary provided advice and services to the Committee. Guidance was also obtained from Willis Towers Watson to support decisions on the Company's grading structure and remuneration strategy, Reward Risk Management for salary benchmarking and from Deloitte LLP (Deloitte), in respect of the new LTIP. The total fees paid to Willis Towers Watson in the year for services to the Committee were £5,039 (2017 - £2,650). The total fees paid to Reward Risk Management in the year for services to the Committee were £10,296 (2017 - £nil). The total fees payable to Deloitte for services carried out to the Committee are £2,950 (2017 - £6,965). Fees charged by Deloitte, Willis Towers Watson and Reward Risk Management are on a time and material basis. Deloitte also provided tax services during the year to the Company.

Deloitte and Willis Towers Watson are founding members of the Remuneration Consultants Group and adhere to its Code in relation to executive remuneration consulting

in the UK. The Committee is satisfied that the advice received from Willis Towers Watson, Reward Risk Management and Deloitte is 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, which 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
T Wood, Chairman (resigned 19 June 2018)	3	3
R Davis, Non-Executive (retired 23 November 2017)	1	1
T Tutton, Non-Executive, Chairman from 22 June 2018	3	3
T Hemus, Non-Executive (resigned 19 June 2018)	3	3
H Ichishi, Non-Executive	3	3
P Malan, Non-Executive	3	3

Directors' remuneration report (continued)

Summary of Directors' remuneration policy

The main elements of the remuneration package for executive directors are:

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2017/18 and changes implemented for 2018/19
Salary	To attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	<p>Factors taken into account when determining basic annual salary levels are market data provided by a selected market leading provider, objective research, the individual executive director's performance during the year and pay and conditions throughout the Company.</p> <p>Salaries are reviewed at the discretion of the Committee.</p>	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.	<p>The salary for the CEO was increased by 3% with effect from 1 April 2018 in line with the Company wide annual pay award.</p> <p>Salaries will next be reviewed with effect from 1 April 2019.</p>

Directors' remuneration report (continued)

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2017/18 and changes implemented for 2018/19
Annual bonus (Annual Cash Incentive Plan)	To drive and reward performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes, Ofwat's measures of success.	<p>2017/18 Annual bonus is based:</p> <ul style="list-style-type: none"> • 90% on achieving certain business objectives; and • 10% on the achievement of role specific strategic objectives <p>Business objectives include customer service and operational targets are 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, the SIM.</p> <p>Bonus scheme targets are set annually.</p> <p>Arrangement for the 2017/2018 annual bonus plan do not include provisions that would enable the company to recover sums paid or withhold the payment of any sum under specific circumstances in which it would be appropriate and therefore do not comply with the Code in this respect.</p>	<p>Maximum of:</p> <ul style="list-style-type: none"> • 60% of base salary for the CEO • 30% of base salary for the CFO <p>Save in exceptional circumstances.</p>	<p>For 2018/19 the annual bonus is based:</p> <ul style="list-style-type: none"> • 80% on achieving certain business objectives; and • 20% on the achievement of role specific strategic objectives • Introduction of a malus and clawback into the bonus rules for 2018/19 award

Directors' remuneration report (continued)

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2017/18 and changes implemented for 2018/19
LTIP	<p>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>The LTIP is based on performance over the AMP6 period from 1 April 2015 to 31 March 2020.</p> <p>LTIP awards are based on the Company's performance against long term strategic goals of the Company including customer outcomes.</p> <p>50% will be paid following the end of AMP6 with the remaining 50% paid one year later.</p> <p>Awards may be subject to malus and clawback as described below</p> <p>There is no share option scheme in operation.</p>	<p>The maximum payment is 34.2% of salary for each year of the performance period the director is in employment with an expected minimum payment of £55,000 p.a. for Mel Karam.</p>	<p>The LTIP will continue to operate during 2018/19.</p>

Directors' remuneration report (continued)

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2017/18 and changes implemented for 2018/19
Pension	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Pension contributions are made to the Company stakeholder schemes at a specified percentage of basic salary.	Maximum Employer contribution of 6% of base salary.	No change for 2018/19.
Benefits	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Reflecting market practice and comprising the provision of a company car and private medical insurance. CEO entitled to 1 year relocation expenses until 31 March 2018.	N/A	Relocation expenses for Mel Karam have been extended beyond 31 March 2018.

Directors' remuneration report (continued)

Malus and clawback provisions

The Annual Bonus (in respect of 2018/19 and subsequent financial years) and LTIP are subject to 'malus' and 'clawback' provisions as set out below:

Annual Bonus (Annual Cash incentive Plan ('ACIP'))	LTIP
<p>A 'malus' and 'clawback' provision has been included in the rules for the Annual Bonus in respect of 2018/19 and subsequent financial years</p> <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> <ul style="list-style-type: none"> (i) a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus; or (ii) in the event of dismissal due to gross misconduct in the bonus year or in the event of criminal behaviour. 	<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> <ul style="list-style-type: none"> (i) a material misstatement in financial results, (ii) error in assessing performance measures, (iii) the information on which the award was made, (iv) a material failure of risk management, (v) serious misconduct, (vi) a significant failure in operations or risk management which come to the attention of Ofwat, (vii) serious reputational damage to the corporate Group, (viii) or any other circumstance which the Committee considers to be similar in their material nature or effect as those instances above. <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 (viii) above occurring.</p> <p>The malus and clawback rules do not apply to the CEO's guaranteed payment.</p>

Directors' remuneration report (continued)

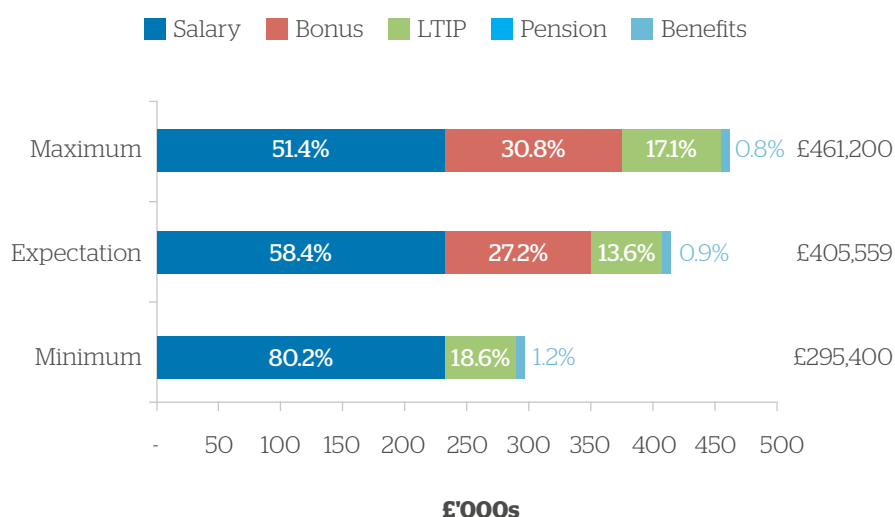
Remuneration in different performance scenarios

In line with the Remuneration Reporting Regulations requirements, the chart below illustrates the CEO's and CFO's remuneration package under three different performance scenarios: minimum, performance in-line with expectations and maximum.

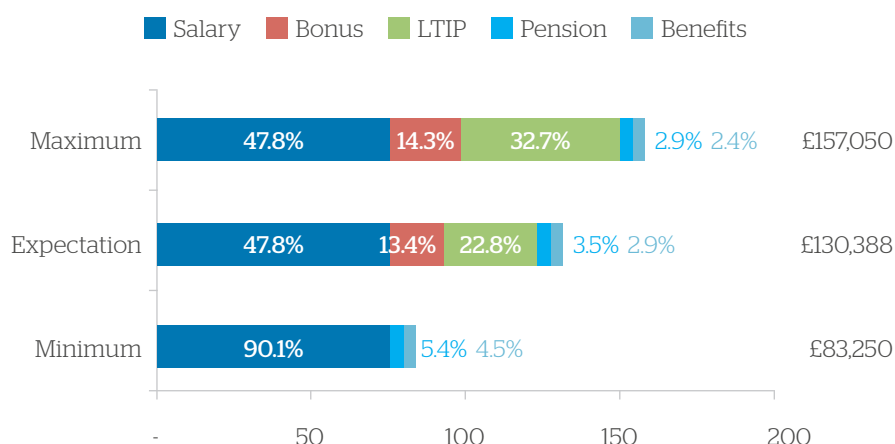
The chart has been based on the following assumptions:

- **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 2018. The value of taxable benefits as disclosed in the single figure for the year ending 31 March 2018. Pension is based on a fixed percentage of base salary linked to employee contribution up to a maximum employer contribution of 6%.

M Karam: Chief Executive Officer



L Flowerdew: Chief Financial Officer Appointed 1 October 2018



No chart is shown for Mr Axtell, the previous CFO, as he has resigned and left on 13 July 2018.

Directors' remuneration report (continued)

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 may take 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 director's original appointment and expiry of current term are as below.

The notice periods disclosed below 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

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	15 May 2017	11 September 2020	2020	Rolling 6 months
M Axtell *	11 November 2015	11 September 2020	Not applicable	1 year
Non-Executive Directors	Date appointed to the Board			
K Ludeman	26 July 2012	7 September 2018	2018	1 month
T Tutton	1 January 2015	7 September 2018	2018	1 month
T Hemus **	1 April 2016	12 September 2019	Not applicable	1 month
T Wood **	1 January 2017	11 September 2020	Not applicable	1 month
H Ichishi	10 May 2012	7 September 2018	2018	1 month
P Malan	7 July 2016	12 September 2019	2019	1 month
I Dhar	8 May 2018	9 September 2021	2018	1 month
P Francis	25 June 2018	9 September 2021	2018	1 month

* The Company agreed a shorter notice period with Mick Axtell who left the business on 13 July 2018.

** Resigned 19 June 2018

Directors' remuneration report (continued)

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 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.

Under the LTIP, executives would normally forfeit entitlement to payments under the LTIP unless they left in a "Good Leaver" special circumstance. "Good Leaver" include: 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 length of time they have participated in the plan 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.

Mick Axtell, CFO, has given notice of resignation which is effective on 13 July 2018. During his notice period Mr Axtell continued to receive base salary, benefits and pension. Mr Axtell will not be eligible to receive a bonus in respect of 2017/18 or in respect of 2018/19. Mr Axtell will also no longer be entitled to receive any payment under the LTIP.

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

Remuneration policy for non-executive directors

The remuneration of the independent

Position held by Non-Executive Director	Fee
Chairman of the Board	£100,000
Chair of ARAC	£44,000
Chair of Remuneration Committee	£41,000
Senior Independent Non-Executive Director	£38,000
Non-Executive Director	£36,000

Directors' remuneration report (continued)

Non-Executive directors, other than the Chairman, is determined by the Board following consultation between the Chairman and the CEO. It is based on market evidence of fees paid to non-executive directors 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. The Chairman's fee is determined by the Board, following consultation between the Committee and the CEO.

Non-executive directors do not have contracts of employment, do not participate in the Company designated pension schemes or incentive schemes and do not receive any benefits. Non executives are paid reasonable expenses and the company may settle any tax arising in relation to such expenses. The terms of appointment do not entitle non-executive directors to receive compensation in the event of early termination of their appointment.

Fees for any newly appointed non-executive director would be in-line with the above policy. The table left sets out our current policy in relation to fees paid to non-executive directors.

Shareholder and employee input in setting remuneration policy

The Committee is aware of the need to set performance targets which 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.

Application of remuneration policy in 2017/18

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.

Directors' remuneration report (continued)

Single total figure for remuneration of executive directors for 2017/18 (audited)

	M Karam		L Garcia ¹		M Axtell		M King ²	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Salary/fees	230	-	-	173 ³	147	138 ⁴	-	-
Annual Bonus	83	-	-	35	- ⁵	37	-	-
Benefits	36	-	-	8	5	4	-	-
Pension	10	-	-	10	9	8	-	-
Single Figure pre-LTIP	359	-	-	226	161	187	-	-
Change since prior year	-	-	-	(12.1%)	(13.9%)	6.2%	-	-
LTIP ⁶	-	-	-	47	-	2	-	55
Single Figure	359	-	-	273	161	189	-	55

¹ Mr Garcia resigned as the CEO on 15 December 2016; the remuneration above reflects nine months' service.

² Mr King resigned as the Regulation Director on 31 December 2015. The payment in 2016/17 relates to part payment of £118k consideration for compensation for loss of office, as agreed by both parties.

³ The salary for Mr Garcia includes £27k for payments he was entitled to on leaving under his contract, comprising of £10k for his remaining holiday for 2016 and £17k for one month's salary.

⁴ Following the resignation of Mr Garcia, Mr Axtell was appointed as Interim CEO until 31 March 2017.

⁵ Mr Axtell resigned on 6 October 2017 and was not eligible to receive a bonus for 2017/18.

⁶ The LTIP payment in 2016/17 relates to 2014/15 LTIP and represents the benefit earned from performance measures which were met during 2014/15. As disclosed in the 2014/15 Directors' Remuneration Report 48.08% out of maximum of 60% paid out in relation to the LTIP for the AMP5 period. The payments were made in two equal instalments on 30 September 2015 and 30 June 2016 subject to the participants continuing employment. The amount disclosed in the table relates to the second instalment of the LTIP.

Included within the Financial Statements is an accrual for the AMP6 LTIP; however this is not shown above as the LTIP has not vested in the period and the components of the LTIP are dependent on the performance in future years

Bonus includes amounts earned based on performance during 2017/18, which have been accrued and approved, but not paid as at 31 March 2018 and relates to the period served as a director.

Directors' remuneration report (continued)

Salary (audited)

A salary review conducted by the Committee during 2016/17 resulted in a 1.5% increase in base salary effective from April 2017 for all employees, including the CFO but not the CEO as his employment did not commence until 1 April 2017.

Annual bonus for 2017/18 (audited)

The maximum opportunity for the CEO for the year ended 31 March 2018 is 60% of base salary and 30% of base salary for the CFO. However, as the CFO left on 13 July 2018 he is no longer eligible for a bonus in line with the rules of the scheme.

The table below represents the business performance measures which form 90% of the basis of the bonus. In addition to these performance measures, the remaining 10% of Executive Director bonus is based on a role specific measure which is determined by the Remuneration Committee.

The achievement of the performance measures has been reviewed, with appropriate input from the ARAC, following the end of the 2017/2018 financial year. The maximum 2017/2018 bonus opportunity against each of the main performance measures is shown below together with the award actually received. During the year under review, role specific objectives were set for each executive director. For Mel Karam this was in relation to Talent Management and Succession Planning.

Throughout the year Mel Karam

has enhanced the management bench strength and improved succession planning by filling key strategic openings and providing development opportunities. A new strategy is in place for the development of high-potential employees.

Performance against these objectives, together with business performance and bonus scheme entitlement, dictates the amount of bonus awarded. Key performance highlights include:

- Step change in volume of operational activities delivered within the year.
- Creation of a new Asset Management capability.
- A new Health & Safety team focusing on improving performance as well as practices.
- Our long-term strategy, 'Bristol Water...Clearly', has been developed and published.
- Strong market performance in the first year of Business Retail Market.

Directors' remuneration report (continued)

Mel Karam was assessed as achieving 10 out of 10 for this measure and Mick Axtell was not eligible due to his resignation.

Category	Category Weighting	Sub category	% of Total	Measure	Performance	Score	Weighted score
Health & Safety	20.0%						
Internal Report of Normalised data		1.1 AFR - employees	15.0%	AFR = (No. of accidents x 100,000) / (No. man hours worked) [employees]	2.732	81.8%	12.3%
		1.2 LTIFR - contractor rates	5.0%	LTIFR=(No of Lost Time Injuries x 100,000) / (No hours worked) (Contractors)	1.768	0.0%	0.0%
Financial	20.0%						
Accounts		2.1 Budgeted Opex	10.0%	Budgeted opex of £62.7m Judgement to be taken by RemCom on overspends where there is a decision to invest further than budget envisaged	62.86	77.6%	7.8%
Internal Capital Delivery Plan		2.2 Capex to Meet Obligations	10.0%	As measured against the 2017/18 Wholesale Budget for firm obligations only (e.g. SRS, meters, lining etc.) SRS - £16.6m to deliver Project and pipeline available for use by 31st March 2018 Meters - £6.0m to deliver meter penetration of 53.8% by 31st March 2018 Mains - £12.4m to deliver 175 km of mains replaced by 31st March 2018	28.22	86.0%	8.6%

Directors' remuneration report (continued)

ODIs	20.0%						
Performance Commitments		3.1 Domestic Meter Penetration	6.7%	Percentage of all properties metered, measured against internal target for 2017/18, which is lower than the Regulatory profile for the year to reflect planned catch up profile.	52.67%	57.5%	3.8%
		3.2 Unplanned Customer Minutes Lost	6.7%	As per the modified ODI's from the CMA	73.01	0.0%	0.0%
		3.3 Leakage *	6.7%	Targets in line with BW KPIs	46.6	36.0%	2.4%
SIM Ranking	15.0%						
Ofwat Customer Experience Survey Full Year 2017/18 Final Results		SIM Ranking	15.0%	SIM Ranking for the year as published by Ofwat	11	0.0%	0.0%
PR19	15.0%						
RemCom		PR19 Draft Business Plan	15.0%	Delivering the results to March 2018	Yes	100.0%	15.0%
Role Specific	10.0%						
RemCom		Talent Management/ Succession Planning	10.0%	Measured on score out of 10 as determined by Remuneration Committee.	10	100.0%	10.0%
	100.0%		100.0%	59.9% Rounded to 60.0%			

* The ODI Leakage calculation incorporates a value for Non Household Night Use (NHHNU) which was used during the period of the PR14 leakage target setting. In 2016 the model behind the Night Use assessment was updated which resulted in a higher Non Household Night Use allocation, and effectively reduced Leakage. **The updated Leakage calculation is a better assessment of the current level of leakage as it uses the most up to date data and reflects therefore our leakage performance accurately.**

For our ODI performance we will continue using the old NHHNU figure and the resulting leakage assessment. The difference between the ODI leakage (49.58 MI/d) and actual leakage (46.64 MI/d) for 2017/18 was approx. 3 MI/day.

Directors' remuneration report (continued)

The resulting bonus awards, after assessment of personal and business performance elements, were:

M Karam	60% of maximum bonus entitlement, i.e. 35.92% of year end base salary
M Axtell	Not eligible for a bonus due to resignation

Mel Karam's bonus was based on his 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.

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.

Pension arrangements (audited)

At 31 March 2018, no director was accruing benefits under the Company's defined benefit pension scheme. Mr Karam became a member of the Company designated stakeholder pension scheme in April 2017 under the Government's pension auto-enrolment legislation. Since that time, and 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 £10,350 (2016/17: £nil).

At 31 March 2018, Mr Axtell was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme during the financial year was £8,831, an amount equivalent to 6% of annual base salary (2016/17: £8,300).

Any newly-appointed executive directors recruited externally will be offered membership of a Company designated stakeholder pension scheme or the option of a contribution by the Company to a personal pension plan.

Interests in shares (audited)

During the year ended 31 March 2018 none of the directors had any interest in the ordinary or preference shares of the Company.

Directors' remuneration report (continued)

Single total figure for remuneration of non-executive directors for 2017/18 (audited)

	Salary/fees	
	2017/18 £'000	2016/17 £'000
K Ludeman (Chairman)	100	100
R Davis	23	36
T Tutton	38	38
T Hemus	44	42
T Wood	41	10
C Curling	-	37
P McIlwraith	-	7
H Ichishi ¹	-	-
M Smerdon ¹	-	-
P Malan ¹	-	-
Single Figure	246	270

¹ No remuneration has been paid by the Company.
The non-executive directors do not receive a bonus or any other benefits.

Directors' remuneration report (continued)

Change in CEO's Remuneration

The following table shows the total remuneration payable by the Company to Luis García, the CEO, in respect of service for the period from 1 April 2012 to 15 December 2016, the remuneration payable to Mick Axtell as interim CEO for the period to 31 March 2017 and the remuneration payable to Mel Karam, the CEO for the period 1 April 2017 to 31 March 2018.

	Year ended 31 March:								
	Luis García						Mick Axtell	Total for 2017	Mel Karam
	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 ¹ £'000	2017 ² £'000	2017 £'000	2018 £'000
Base salary	156	185	189	194	194	173	42	215	230
Annual bonus									
Annual bonus	33	58	54	51	40	35	11	46	83
Annual bonus as proportion of salary	21%	31%	29%	27%	21%	24%	26%	25%	36%
Maximum bonus achievable (of base salary)	36%	36%	36%	36%	30%	30%	30%	30%	60%
Proportion of maximum bonus achieved	59%	87%	79%	73%	68%	81%	84%	87%	60%
LTIP earned	-	-	48	187	-	-	-	-	-
LTIP as proportion of salary	0%	0%	25%	95%	0%	0%	0%	0%	0%
Benefits	8	9	9	10	11	8	1	9	36
Pension	-	-	6	12	12	10	2	12	10
Total remuneration	197	252	306	454	257	226	56	282	359

¹ The remuneration for the current year reflects that Mr García resigned as CEO on 15 December 2016. It includes £27k for payments that 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 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.

The 2014/15 LTIP payments 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.

Directors' remuneration report (continued)

Percentage Change in Remuneration for the CEO Compared to all Employees

- **Salary** - The salary paid to the individual undertaking the role of CEO for 2017/18 increased by 7.0% compared to 2016/17. The average salary for other employees for 2017/18 increased by 2.8% compared to 2016/17.
- **Annual bonus** - The bonus awarded to the CEO for 2017/18 increased by 79.7% compared with the prior year (2016/17: increase of 15.4%). The total bonus paid to employees, excluding the CEO, for the period is £1.2m compared with £1.1m in 2016/17. The average bonus payment per employee for 2017/18 was £747 (2016/17: £800). This is the average bonus for those at the lowest grade group.
- **Benefits** - Benefits, including benefits

in kind, payable to the CEO increased by 358.0% for 2017/18 compared with the prior year (2016/17: decrease 27.3%). Benefits have increased this year as relocation and subsistence costs were paid by Bristol Water on behalf of the CEO. Benefits payable to all other eligible staff have remained constant compared with the prior year (2016/17: constant).

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.

	Year ended 31 March 2018		Year ended 31 March 2017
	£m	Change compared to prior year %	£m
EBITDA	51.4	113%	50.8
PBT	15.4	(26.35%)	20.9
Payments to shareholders:			
Base level dividends	4.0	(33.33%)	6.0
Inter-company loan interest related dividends	3.3	3.13%	3.2
Payments to employees:			
Wages and salaries excluding directors	17.7	15.16%	15.4
Wages and salaries including directors	18.5	13.76%	16.3

The base level dividends comprise £4.0m due to working capital requirements of Water 2 Business Limited.

Directors' remuneration report (continued)

How the remuneration policy will be applied in 2018/19

The same remuneration policy as outlined above will be applied during 2018/19.

Salary

As outlined previously, a review of the impact of inflation on salaries was conducted in 2017/18 resulting in a 3.0% increase in base salary as of April 2018 for all employees, including the CEO. The CFO did not receive a base salary increase as of April 2018. The salaries for 2018/19 for executive directors are therefore as follows:

Executive Director	Salary 2018/19
CEO Mel Karam	£236,900
CFO Mick Axtell (to 13 July 2018)	£147,000
CFO Laura Flowerdew (from 1 October 2018)	£150,000

Annual bonus

The annual bonus scheme will continue to operate for all employees. The CEO and CFO will continue to operate under the separate ACIP scheme.

The maximum bonus for 2018/19 for the CEO is 60% reflecting the leadership required and criticality of the role. The maximum bonus opportunity for 2018/19 for the CFO is 30%.

The performance weightings have been agreed as follows:

Measures	Weighting
Financial	10%
Outcome Delivery Incentive ("ODI")	15%
Customer Service	15%
Periodic Review 2019 ("PR19")	20%
Health and Safety	20%
Role specific	20%
Total	100%

Their achievement will be reviewed, with appropriate input from the ARAC at the end of the year.

Directors' remuneration report (continued)

2018 LTIP Grant (audited)

As set out above a new LTIP was approved at a Board meeting in March 2017 and grant was made to the two Executives on 15 May 2017. The performance period is 1 April 2015 to 31 March 2020. The period which the AMP6 LTIP relates to spans 1 April 2017 until 31 March 2020 for Mel Karam and 1 October 2018 to 31 March 2020 for Laura Flowerdew. Due to the resignation of Mick Axtell he is no longer eligible to benefit from this LTIP scheme. An estimate of the cost accrued to the end of March has been included in the 2017/18 accounts. The LTIP is based on achievement against the following performance conditions:

Performance Measures	Weighting
Totex Performance Measure	20%
Dividend Performance Measure	10%
Outcome Delivery Incentive ("ODI") Performance Measure	10%
Service Incentive Mechanism ("SIM") Performance Measure	10%
Company Monitoring Framework Performance Measure	10%
PR 19 Final Determination / Delivery Plan Performance Measure	15%
Asset Management Capability Assessment Performance Measure	25%

The maximum payment is 34.2% of salary for each year of the performance period the director is in employment subject to the achievement of the performance with an expected minimum payment of £55,000 pa in respect of Mel Karam.

As soon as practical 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 the Award Payment shall be paid as soon as practical after the Award Payment Determination Date and the remaining 50% shall be paid as soon as practical after the first anniversary of the Award Payment Determination Date.

Directors' remuneration report (continued)

Illustration of the timeline for the LTIP payment to CEO and CFO is shown below.

