BRISTOL WATER plc

ANNUAL PERFORMANCE REPORT

YEAR ENDED 31 MARCH 2016

BRISTOL WATER plc

ANNUAL PERFORMANCE REPORT
for the year ended 31 March 2016

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 14th July 2016 .

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ANNUAL PERFORMANCE REPORT
for the year ended 31 March 2016

Section 1 Regulatory Financial Reporting.

1A Income Statement for the year ended 31 March 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Revenue	**110.9**	(0.4)	(1.2)	**(1.6)**	**109.3**
Operating costs	**(74.8)**	(0.2)	1.0	**0.8**	**(74.0)**
Other operating income	**0.0**	0.0	0.0	**0.0**	**0.0**
Operating profit	**36.1**	(0.6)	(0.2)	**(0.8)**	**35.3**
Other income	**0.0**	0.4	0.0	**0.4**	**0.4**
Interest income	**6.2**	0.0	0.0	**0.0**	**6.2**
Interest expense	**(14.5)**	(0.5)	0.0	**(0.5)**	**(15.0)**
Other interest expense	**0.0**	0.0	0.0	**0.0**	**0.0**
Profit before tax	**27.8**	(0.7)	(0.2)	**(0.9)**	**26.9**
UK Corporation tax	**(1.5)**	0.0	0.0	**0.0**	**(1.5)**
Deferred tax	**2.3**	0.1	0.0	**0.1**	**2.4**
Profit for the year	**28.6**	(0.6)	(0.2)	**(0.8)**	**27.8**

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

Differences between Statutory and RAGs Definitions
The RAGs require income from rents on properties of £0.4m to be shown in “Other income” net of expenses below operating profit, rather than in revenue.

The cost of administering new supplies is capitalised in the statutory accounts to the fixed assets created. The RAGs require this cost to be expensed. Operating expenses are increased by £0.3m.

In the Statutory accounts, IAS 23 requires borrowing costs to be capitalised when they relate directly to construction of an asset. The RAGs require IAS23 to be dis-applied. Operating costs are reduced by £0.1m in respect of the depreciation of capitalised borrowing costs.

The interest expense difference of £0.5m represents the dis-allowed capitalised borrowing 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 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Profit for the year	**28.6**	(0.6)	(0.2)	**(0.8)**	**27.8**
Actuarial losses on post employment plans	**(2.2)**	0.0	0.0	**0.0**	**(2.2)**
Other comprehensive income	**(7.1)**	0.0	0.0	**0.0**	**(7.1)**
Total Comprehensive income for the year	**19.3**	(0.6)	(0.2)	**(0.8)**	**18.5**

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 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	**556.6**	(5.0)	(1.2)	**(6.2)**	**550.4**
Intangible assets	**5.0**	0.0	0.0	**0.0**	**5.0**
Investments - loans to group companies	**68.5**	0.0	0.0	**0.0**	**68.5**
Retirement benefit assets	**31.9**	0.0	0.0	**0.0**	**31.9**
Total	**662.0**	(5.0)	(1.2)	**(6.2)**	**655.8**
Current assets					
Inventories	**1.3**	0.0	0.0	**0.0**	**1.3**
Trade & other receivables	**30.7**	0.0	0.0	**0.0**	**30.7**
Cash & cash equivalents	**18.0**	0.0	0.0	**0.0**	**18.0**
Total	**50.0**	0.0	0.0	**0.0**	**50.0**
Current liabilities					
Trade & other payables	**(26.0)**	0.0	1.0	**1.0**	**(25.0)**
Capex creditor	**(7.0)**	0.0	0.0	**0.0**	**(7.0)**
Borrowings	**(0.4)**	0.0	0.0	**0.0**	**(0.4)**
Provisions	**0.0**	0.0	0.0	**0.0**	**0.0**
Total	**(33.4)**	0.0	1.0	**1.0**	**(32.4)**
Net current assets	**16.6**	0.0	0.0	**1.0**	**17.6**
Non-Current liabilities					
Borrowings	**(306.4)**	0.0	0.0	**0.0**	**(306.4)**
Financial instruments	**(2.0)**	0.0	0.0	**0.0**	**(2.0)**
Provisions	**(0.2)**	0.0	0.0	**0.0**	**(0.2)**
Deferred income - G&C's	**(71.7)**	0.0	0.0	**0.0**	**(71.7)**
Preference share capital	**(12.5)**	0.0	0.0	**0.0**	**(12.5)**
Deferred tax	**(58.9)**	1.0	0.0	**1.0**	**(57.9)**
Total	**(451.7)**	1.0	0.0	**1.0**	**(450.7)**
Net assets	**226.9**	(4.0)	(0.2)	**(4.2)**	**222.7**
Equity					
Called up share capital	**6.0**	0.0	0.0	**0.0**	**6.0**
Retained earnings & other reserves	**220.9**	(4.0)	(0.2)	**(4.2)**	**216.7**
Total Equity	**226.9**	(4.0)	(0.2)	**(4.2)**	**222.7**

The accounts were approved by an authorised Committee of the Board on and signed on its behalf by

L García, Chief Executive Officer

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.

1D Statement of cash flows for the year ended 31 March 2016

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Operating profit	**36.1**	(0.6)	(0.2)	**(0.8)**	**35.3**
Other income	**0.0**	0.4	0.0	**0.4**	**0.4**
Depreciation	**20.9**	(0.1)	0.0	**(0.1)**	**20.8**
Amortisation - G&C's	**(1.7)**	0.0	0.0	**0.0**	**(1.7)**
Changes in working capital	**(0.5)**	0.0	0.2	**0.2**	**(0.3)**
Pension contributions	**(2.9)**	0.0	0.0	**0.0**	**(2.9)**
Movement in provisions	**(0.9)**	0.0	0.0	**0.0**	**(0.9)**
Cash generated from operations	**51.0**	(0.3)	0.0	**(0.3)**	**50.7**
Net interest paid	**(8.5)**	0.0	0.0	**0.0**	**(8.5)**
Tax paid	**(2.2)**	0.0	0.0	**0.0**	**(2.2)**
Net cash generated from operating activities	**40.3**	(0.3)	0.0	**(0.3)**	**40.0**
Investing activities					
Capital expenditure	**(33.5)**	0.3	0.0	**0.3**	**(33.2)**
Grants & Contributions	**4.1**	0.0	0.0	**0.0**	**4.1**
Disposal of fixed assets	**0.1**	0.0	0.0	**0.0**	**0.1**
Other	**0.0**	0.0	0.0	**0.0**	**0.0**
Net cash used in investing activities	**(29.3)**	0.3	0.0	**0.3**	**(29.0)**
Net cash generated before financing activities	**11.0**	0.0	0.0	**0.0**	**11.0**
Cashflows from financing activities					
Equity dividends paid	**(3.2)**	0.0	0.0	**0.0**	**(3.2)**
Net loans received	**(0.3)**	0.0	0.0	**0.0**	**(0.3)**
Net cash generated from financing activities	**(3.5)**	0.0	0.0	**0.0**	**(3.5)**
Increase in net cash	**7.5**	0.0	0.0	**0.0**	**7.5**

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, and depreciation on the capitalised interest which has been dis-applied.
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1E Net debt analysis at 31 March 2016

	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index linked £m	**Total £m**
Borrowings (excluding preference shares)	123.4	12.3	173.1	**308.8**
Preference share capital				**12.5**
Total borrowings				**321.3**
Cash				**(18.0)**
Short term deposits				**0.0**
Net Debt				**303.3**
Gearing				**68.75**
Adjusted gearing				**65.92**
Full year equivalent nominal interest cost	5.3	0.4	7.7	**13.4**
Full year equivalent cash interest payment	5.3	0.4	5.8	**11.5**
Indicative interest rates				
Indicative weighted average nominal interest rate	4.3	3.6	4.5	**4.4**
Indicative weighted average cash interest rate	4.3	3.6	3.4	**3.8**

The adjusted gearing is calculated in line with Moody's definition, which excludes preference shares from net debt.

The allowance included in the determination for the real cost of debt was 2.61%. The indexed linked cash interest compares directly with the determination real cost of debt, being 0.79% higher. To compare the fixed and floating interest rates with the indicative cash interest rates, they need to be adjusted for the year average inflation 1.05%, which gives a combined rate in real terms of 3.14% (0.53% higher). The difference between the allowed interest rate and the actual interest rate incurred, equates to £1.8m lower allowed revenues.

1F Reconciliation of current tax charge

	2016 £m
Profit on ordinary activities before tax	**26.9**
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 20%	**5.4**
Effects of:	
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	**0.3**
Capital allowances in excess of depreciation	**(3.5)**
Short term timing differences	**(0.2)**
Long-term timing differences	**0.1**
Adjustment to tax in respect of prior years	**(0.6)**
Total current tax charge in income statement	**1.5**
Disclosed in the accounts	
Profit and loss [1A]	**1.5**
OCI	**(1.1)**
Total current tax charge	**0.4**

The current tax relief in the OCI reflects the pension tax accounting, which generates an overall tax credit in the period. This credit has been allocated to the OCI to offset against the actuarial loss for the period.

1G Reconciliation of current tax to price limit

	2016 £m
Current tax allowed per price limits	**2.4**
Permanent differences	**2.4**
Capital allowances in excess of depreciation	**1.1**
Interest expense adjustment	**0.5**
Short term timing differences	**(0.2)**
Adjustments relating to prior periods' profits	
Adjustment to tax in respect of prior years	**(0.6)**
FRS101 convergence adjustments	**(4.4)**
Pension curtailment gain	**(0.8)**
	(5.8)
Total current tax charge	**0.4**

Factors affecting future tax charge
The tax rate for the current period is lower than the prior period due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015.
Changes to reduce the UK Corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 21 October 2015 and are reflected in these accounting statements.

A further change to the UK Corporation tax rate was announced in the Chancellor's budget on 16 March 2016 to reduce the main rate to 17% from 1 April 2020. As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these accounting statements.

Section 2 Price Control and additional segmental reporting

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.

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 2.05 (Guideline for classification of costs across the price controls).

Capital costs are defined as those costs which are incurred in providing an additional or a replacement asset. Where assets have been replaced, their cost is removed from the Balance Sheet. 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 unless they were part of a capital scheme. As capital costs are incurred, they are analysed and assigned to the appropriate price control, and the business unit within that price control, in accordance with RAG 2.05.

RAG 2.05 changed methods of allocating costs from the previous guidelines applicable in 2014/15. The main changes are

- Full Time Equivalents (FTEs) now include the staff working at the joint billing company BWBSL. The effect has been to increase the allocation of costs to retail based on FTEs by £0.7m, and of this all but £50k is allocated to households,.
- Full Time Equivalents now includes all contractors working for Bristol Water. The impact on data collection has been more significant than the change in allocations.
- Other business activities (the incremental costs of regulation) are allocated 20% to each business unit, increasing the allocation to retail.
- New supplies administration costs are retail. These are capitalised in the statutory accounts but the RAGs stipulate they are to be expensed so the capitalisation is dis-applied and higher opex shown in the regulatory accounts.

2A Segmental income statement for the 12 months ended 31 March 2016

	Retail		Wholesale	
	Household £m	Non-Household £m	Water £m	**Total £m**
Revenue - price control	10.6	0.6 [1]	96.4	**107.6**
Revenue - non price control	0.0	0.0	1.7	**1.7**
Operating costs	(8.2)	(1.7)	(64.1)	**(74.0)**
Other operating income	0.0	0.0	0.0	**0.0**
Operating profit before recharges	2.4	(1.1)	34.0	**35.3**
Recharges from other segments	(0.9)	(0.1)	0.0	**(1.0)**
Recharges to other segments	0.0	0.0	1.0	**1.0**
Operating profit	1.5	(1.2)	35.0	**35.3**

[1] The total appointed revenue reported by Bristol Water in respect of the provision of services to the non-household sector is £24.6m. The revenue for this sector is allocated between segments in line with the wholesale and retail tariffs set out in the 2015/16 charges scheme. The costs are allocated between segments in table 2C using the cost allocation methodology.

2B Totex analysis for the 12 months ended 31 March 2016 - wholesale water

	Water £m	**Total £m**
Operating expenditure		
Power	8.2	**8.2**
Income treated as negative expenditure	0.0	**0.0**
Service charges/discharge consents	2.8	**2.8**
Bulk supply/Bulk discharge	0.1	**0.1**
Other operating expenditure	28.2	**28.2**
Local authority rates	4.8	**4.8**
Total operating expenditure excluding third party services	44.1	**44.1**
Third party services	1.2	**1.2**
Total operating expenditure	45.3	**45.3**
Capital expenditure		
Maintaining the long term capability of the assets - infra	5.7	**5.7**
Maintaining the long term capability of the assets - non-infra	5.3	**5.3**
Other capital expenditure - infra	8.2	**8.2**
Other capital expenditure - non-infra	9.1	**9.1**
Total gross capital expenditure (excluding third party)	28.3	**28.3**
Third party services	0.0	**0.0**
Total gross capital expenditure	28.3	**28.3**
Grants and contributions (price control)	(4.2)	**(4.2)**
Totex	69.4	**69.4**
Cash expenditure		
Pension deficit recovery payments	0.3	**0.3**
Other cash items	0.1	**0.1**
Totex including cash items	69.8	**69.8**

2C Operating cost analysis for the 12 months ended 31 March 2016 – retail	Household £m	Non-household £m	**Total £m**
Operating expenditure			
Customer Services	1.8	0.4	**2.2**
Debt management	0.4	0.1	**0.5**
Doubtful debts	2.4	0.2	**2.6**
Meter reading	0.4	0.1	**0.5**
Services to developers	0.0	0.4	**0.4**
Other operating expenditure	3.0	0.5	**3.5**
Total operating expenditure excluding third party services	8.0	1.7	**9.7**
Third party services operating expenditure	0.0	0.0	**0.0**
Total operating expenditure	8.0	1.7	**9.7**
Depreciation	0.2	0.0	**0.2**
Total operating costs	8.2	1.7	**9.9**
Debt written off	1.8	0.2	**2.0**

2Ci 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 2010/11 and before is fully provided for by the end of financial year 2015/16. 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 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 “Restart Plus” 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. There has been a lower level of write offs from the previous year.

The provision at 31 March 2016 was £16.8m (31 March 2015: £16.2m). The increase in the provision was lower than last year reflecting the lower bills in 2015/16, offset by lower amount of debt written off as uncollectable.

Net trade debtor balance at 31 March 2016 was £13.0m (31 March 2015: £14.0m). The decrease compared to the last year is predominantly due to lower bills.

2Cii Retail costs compared to the allowance

The allowed household retail costs were £9.6m and actual costs were £0.4m lower than the allowance. £0.9m was due to a reduced bad debt charge following the lower bills issued this year and the improvement we have seen in collection rates.£0.3m of the pension curtailment gain was allocated to retail household as it followed salary costs. Changes in metering levels were 50% lower than expected, lower costs of £0.1m.The general management emphasis on non-household has lowered the allocation to household retail by £0.2m. This was offset by an increased charge to retail due to the inclusion of billing company personnel in the full time equivalents used to allocate costs between price controls (in accordance with the new guidance) of £0.7m.This caused a similar increase in the recharges from other segments for the use of use of fixed assets £0.4m. There was a small number of new connections in line with expectations.

Retail Non-household costs exceeded the allowance by £0.8m. £0.3m relates to recognising capitalisation of Services to developers' costs as operating costs (in accordance with the new guidance). Bad debts increased by 0.1m due to the rebasing of allocations between household and non-household.
In other operating expenditure, general and support costs increased by £0.4m. This was due to a more detailed analysis of the billing company charge resulting in an increased allocation of non-household general and support costs of £0.1m. It was also due to the inclusion of billing company personnel in the full time equivalents (in accordance with the new guidance) increasing general management and information technology charges to retail. Additionally the change of allocation for general management from customer numbers to management estimate (in accordance with new guidance), resulted in an increased charge of +£0.3m to non-household general and support.

2D Historic cost analysis of tangible fixed assets - wholesale and retail

	Wholesale	Retail		
	Water £m	Household £m	Non-Household £m	**Total £m**
Cost				
At 1 April 2015	755.2	1.5	0.0	**756.7**
Disposals	(14.1)	(0.1)	0.0	**(14.2)**
Additions	28.1	0.1	0.6	**28.8**
At 31 March 2016	769.2	1.5	0.6	**771.3**
Depreciation				
At 1 April 2015	(215.2)	(1.1)	0.0	**(216.3)**
Disposals	14.0	0.1	0.0	**14.1**
Charge for the year	(18.6)	(0.1)	0.0	**(18.7)**
At 31 March 2016	(219.8)	(1.1)	0.0	**(220.9)**
Net book amount at 31 March 2016	549.4	0.4	0.6	**550.4**
Net book amount at 1 April 2015	540.0	0.4	0.0	**540.4**

The net book value includes £16.9m in respect of tangible assets in the course of construction.

2Di. Capitalisation policy

Definition of a fixed asset

An asset is an item that Bristol Water owns and uses in the course of its business having 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 Balance Sheet as additions to fixed assets. Where non-infrastructure assets have been replaced their cost is removed from the Balance Sheet. 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 £1000 in total would be capitalised.

Assets are either infrastructure assets or non-infrastructure assets.

Infrastructure assets

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.

Types of infrastructure 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.

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.

The only changes to the capitalisation policy during the year, and changes in judgements, apportionments or adjustments, are those which arose from the conversion to FRS101 for 2015/16 reporting. These affected infrastructure assets, and are clearly disclosed in the annual report accounting disclosures.

2E Analysis of capital contributions and land sales for the 12 months ended 31 March 2016 – wholesale

	Fully recognised in income statement £m	Capitalised and amortised against depreciation £m	Fully netted off capex £m	**Total £m**
Grants and contributions - water				
Connection charges (s45)	0.0	1.9	0.0	**1.9**
Infrastructure charge receipts (s146)	0.0	1.7	0.0	**1.7**
Requisitioned mains (s43, s55 & s56)	0.0	0.6	0.0	**0.6**
Diversions (s185)	0.0	0.0	0.0	**0.0**
Other Contributions	0.0	0.0	0.0	**0.0**
Total	0.0	4.2	0.0	**4.2**

Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	0.0	0.0	0.0	**0.0**
Requisitioned sewers (s100)	0.0	0.0	0.0	**0.0**
Diversions (s185)	0.0	0.0	0.0	**0.0**
Other Contributions	0.0	0.0	0.0	**0.0**
Total	0.0	0.0	0.0	**0.0**

	Water Total £m
Balance sheet	
B/f	**69.2**
Capitalised in year	**4.2**
Amortisation (in income statement)	**(1.7)**
c/f	**71.7**

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	45.2	4.8	50.0	256.8	18.6
Unmeasured wastewater only customer	0.0	0.0	0.0	0.0	0.0
Unmeasured water and wastewater customer	0.0	0.0	0.0	0.0	0.0
Measured water only customer	27.2	5.8	33.0	224.3	25.9
Measured wastewater only customer	0.0	0.0	0.0	0.0	0.0
Measured water and wastewater customer	0.0	0.0	0.0	0.0	0.0
Total	72.4	10.6	83.0	481.1	22.0

2G Non-household water - revenues by customer type

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers	Average non-household retail revenue per customer £
Default tariffs					
Band A - 250Ml+	0.9	0.0	0.9	3	6,000.0
Band B - 100-250Ml	2.0	0.1	2.1	13	2,923.1
Band C - 50-100 Ml	1.6	0.0	1.6	22	1,454.5
Band D - 15-50 Ml	1.2	0.0	1.2	34	735.3
Band E 5-15Ml	4.0	0.1	4.1	438	194.1
Band F - 1-5Ml	7.6	0.1	7.7	3,155	41.5
Band G - 0-1Ml	6.0	0.3	6.3	27,648	9.5
Band U	0.6	0.0	0.6	1,504	10.6
Total default tariffs	23.9	0.6	24.5	32,817	18.5
Non-Default tariffs					
Total non-default tariffs	0.1	0.0	0.1	31	63.4
Total	24.0	0.6	24.6	32,848	81.9

2I Revenue analysis for the 12 months ended 31 March 2016

	Household £m	Non-household £m	**Total £m**
Wholesale charge - water			
Unmeasured	45.2	0.5	**45.7**
Measured	27.2	23.4	**50.6**
Third party revenue	0.0	0.1	**0.1**
Wholesale Total	72.4	24.0	**96.4**
Retail revenue			
Unmeasured	4.8	0.0	**4.8**
Measured	5.8	0.6	**6.4**
Retail third party revenue	0.0	0.0	**0.0**
Retail total	10.6	0.6	**11.2**
Third party revenue - non-price control			
Bulk Supplies			**0.7**
Other third party revenue			**1.0**
Other appointed revenue			**0.0**
Total appointed revenue			**109.3**

2I Revenue analysis for the 12 months ended 31 March 2016 (continued)

	Water Total £m
Wholesale revenue governed by price control	**96.4**
Grants & contributions	**4.2**
Total revenue governed by wholesale price control	**100.6**
Amount assumed in wholesale determination	**102.2**
Difference	**(1.6)**

2Ii Comparison with 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 produces a calculated revenue expectation of £102.235m. Wholesale Revenue received in 2015/16 as per table 2I is £100.591m, a difference of £1.644m (1.6%). This difference is within the threshold of 2% allowed by the Wholesale Revenue Forecasting Incentive Mechanism, and therefore we anticipate this to be fully recoverable in 2017/18 tariffs.
The principal reason for outturn revenue being lower than the allowance is customer demand being lower than forecast. This is attributable to higher than expected levels of rainfall during the summer months, which constrains demand particularly for garden watering.

The number of household customers increased by 1% due to new connections, in line with expectations. The number of non-household customers remained largely static.

Meter optants were significantly lower than expected. This is mainly attributable to the 16% reduction on average bills from 2014/15 to 2015/16, which reduced the level of billing contacts from unmeasured customers which lead to meter optant requests. We also delayed the introduction of our selective change of occupier metering programme, which constrained the numbers of meters fitted in the year.

Void properties reduced by 7% in the year.

2Iii 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 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.

Measured consumption that has not yet been billed is estimated using a defined and consistently applied methodology based on historic weighted average water consumption by tariff. The difference between closing and opening measured income accrual for the year is recognised within turnover.

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.

2liii 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 properties is recorded normal charges apply once the occupier details have been established. Normal charges apply to vacant metered non-household agricultural properties.

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

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.

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.

BRISTOL WATER plc

ANNUAL PERFORMANCE REPORT
for the year ended 31 March 2016

3A Outcome performance table

	Unique ID	Performance commitment	Units	2014-15 performance level - actual	2015-16 performance level - actual	2015-16 CPL met?	2015-16 reward or penalty (in-period ODIs)	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 (£m absolute value)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast (£m absolute value)
1	PR14BRLW SW_A1	A1: Unplanned customer minutes lost	time	152.4	15.5	No	Not applicable	Penalty	0.7	Penalty	0.7
2	PR14BRLW SW_A2	A2: Asset reliability - infrastructure	category	Stable	Stable	Yes	Not applicable				
3	PR14BRLW SW_A3	A3: Asset reliability - non-infrastructure	category	Stable	Stable	Yes	Not applicable				
4	PR14BRLW SW_B1	B1: Population in centres >25,000 at risk from asset failure	nr	288,589.0	288,589.0	Yes	Not applicable				
5	PR14BRLW SW_C1	C1: Security of supply index (SOSI)	score	100.0	100.0	Yes	Not applicable	Not applicable		Not applicable	
6	PR14BRLW SW_C2	C2: Hosepipe ban frequency	nr	10.2	1.5	Yes	Not applicable				
7	PR14BRLW SW_D1	D1: Mean zonal compliance (MZC)	%	99.9	99.9	No	Not applicable	Penalty	0.3	Penalty	0.3
8	PR14BRLW SW_E1	E1: Negative water quality contacts	nr	2,576.0	2,329.0	Yes	Not applicable	Reward deadband		Reward deadband	
9	PR14BRLW SW_F1	F1: Leakage	nr	45.1	44.2	Yes	Not applicable	Reward deadband		Reward deadband	
10	PR14BRLW SW_G1	G1: Meter penetration	%	45.8	47.3	No	Not applicable	Penalty	0.1	Penalty	0.6

3A Outcome performance table (continued)

	Unique ID	Performance commitment	Units	2014-15 performance level - actual	2015-16 performance level - actual	2015-16 CPL met?	2015-16 reward or penalty (in-period ODIs)	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 (£m absolute value)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast (£m absolute value)
11	PR14BRL WSW_H1	H1: Total carbon emissions	nr	38.5	35.3	No	Not applicable	Not applicable		Not applicable	
12	PR14BRL WSW_H2	H2: Raw water quality of sources	text	Deteriorating	Deteriorating	Yes	Not applicable	Not applicable		Not applicable	
13	PR14BRL WSW_H3	H3: Biodiversity index	text	17596.0[1]	Improving	Yes	Not applicable	Not applicable		Not applicable	
14	PR14BRL WSW_H4	H4: Waste disposal compliance	%	99.0	96.1	No	Not applicable	Not applicable		Not applicable	
15	PR14BRL HHR_G2	G2: Per capita consumption (PCC), measured as litres per head per day (l/h/d)	nr	143.0	141.1	Yes	Not applicable	Not applicable		Not applicable	
16	PR14BRL HHR_I1	I1: Percentage of customers in water poverty	%	2.5	0.4	Yes	Not applicable	Not applicable		Not applicable	
17	PR14BRL HHR_J1	J1: Service incentive mechanism (SIM)	text	80.0	85.1	Yes	Not applicable	blank		blank	
18	PR14BRL HHR_J2	J2: General satisfaction from surveys	%	69.0	83.0	Yes	Not applicable	Not applicable		Not applicable	
19	PR14BRL HHR_J3	J3: Value for money	%	73.0	78.0	Yes	Not applicable	Not applicable		Not applicable	
20	PR14BRL HHR_K1	K1: Ease of contact from surveys	%	95.2	93.1	No	Not applicable	Not applicable		Not applicable	
21	PR14BRL HHR_L1	L1: Negative billing contacts	nr	2612.0	2301.0	Yes	Not applicable	Not applicable		Not applicable	

[1] This is the benchmark first year figure, from which subsequent performance will be assessed.

3A Outcome performance table (continued)

The information provided in proforma 3A provides details of the Company's performance against each of the outcome performance measures set in the PR14 Final Determination.

Details of our performance and explanatory commentary is provided in the Company Annual Report, which is published on our website and available to all customers and stakeholders.

We presented details of our 2015/16 performance against these measures, including the resulting incentive adjustments and assurance process followed, to a meeting of our customer challenge group on Thursday 9th June.

We have forecast a penalty in column 3A.6 for the three measures where we have accrued a penalty in 2015/16 – Unplanned Customer Minutes Lost, Mean Zonal Compliance and Meter Penetration. For the first two of these measures we forecast that we will achieve our performance commitment for the remaining four years of the AMP, and so the forecast penalty for the AMP is equal to the 2015/16 penalty. For meter penetration, achieving the annual targets for meter optants and selective metering assumed in our business plan would result in the level of meter penetration remaining in the penalty range for each year of the AMP, and so the forecast penalty has been calculated in line with expected performance.

We do not consider it appropriate to provide a forecast reward or penalty for SIM performance as this value will be calculated by Ofwat and is dependent on comparative performance against other companies, whose performance against the quantitative measures is not yet known.

Performance Commitment A1: Unplanned Customer Minutes Lost (Line 1)

Performance against this measure was 15.49 minutes, above the maximum penalty threshold of 15.4 minutes. The penalty calculation rate is £0.7389m/minute/property/year – this is applicable to the range between the penalty deadband and the penalty threshold of one minute. The calculated penalty is therefore £0.7389m.

The reason for the performance being above the penalty threshold is primarily attributable to six significant customer interruption events during the year. 60% of the total minutes lost are attributable to these incidents.

Location	Properties affected	Duration	Minutes Lost
Bedminster Down	2,286	16hrs	3.81
Keynsham	1,789	15hrs	2.93
Eastville	624	10hrs	0.71
Evercreech - Shapway	556	14hrs	0.89
Evercreech - Leighton	868	9hrs	0.83
St. Andrews	1,741	4hrs	0.79

We provided details of our performance against all of our outcome performance measures to a meeting of the Bristol Water Challenge Panel on 9th June 2016. This included explanation of the performance on unplanned customer minutes lost and the applicable penalty.

Performance Commitment D1: Mean Zonal Compliance (Line 7)

Performance against this measure was 99.94%. This is at the level of the penalty threshold. The penalty calculation rate is £0.284m per 0.01%, within the range 99.94% to 99.95%. The calculated penalty is therefore £0.284m.

Our score of 99.94% represents an improved performance from previous year.

Performance Commitment D1: Mean Zonal Compliance (Line 7)

During 2015 our random compliance sampling at customers' properties identified two nickel failures (due to nickel leaching from chrome plating) and three taste and odour failures associated with deficiencies in the internal plumbing systems. Although these failures were solely attributable to internal plumbing issues, they had the effect of reducing our MZC figure from 99.97% down to 99.94%.

In 2015, one compliance sample out of the 3,733 taken at treatment works was found to contain coliforms. This equates to a non-compliance of 0.03%.

Routine compliance samples for bacteriological analysis are taken at the outlet of each of our treated water service reservoirs every week. Out of the 8,238 samples taken, two were found to contain coliforms. This equates to a compliance of 99.98%.

During 2015, no DWI Enforcements Orders were served associated with bacteriological quality at treatment works.

We provided details of our performance against all of our outcome performance measures to a meeting of the Bristol Water Challenge Panel on 9th June 2016. This included explanation of the performance on mean zonal compliance and the applicable penalty.

Performance Commitment G1: Meter Penetration (Line 10)

Performance against this measure was 47.3%, within the penalty range of 46.4% - 50.4%. The penalty calculation rate is £0.038m per % within that range. The penalty is therefore calculated as the difference between the performance commitment (50.4%) and the actual performance, multiplied by the penalty rate – this is (50.4-47.3)*0.038 = £0.118m.

Performance against this measure has been impacted by lower than expected levels of meter optant requests, which were around 50% of the level received in recent years. This is particularly attributable to the 16% reduction in average bills following the PR14 final determination, which reduced the number of billing contacts received from unmeasured customers which can result in meter optant requests.

We also delayed the introduction of our selective change of occupier metering programme, due to expenditure constraints. This programme is now due to start in October 2016. As a result, a lower than expected number of selective meters was installed, as we continued with our programme of metering properties with larger than average gardens.

We expect to significantly increase our level of meter penetration during AMP6, however, we recognise that the low activity level in 2015/16 may impact our ability to move out of the penalty range in future years.

We provided details of our performance against all of our outcome performance measures to a meeting of the Bristol Water Challenge Panel on 9th June 2016. This included explanation of the performance on meter penetration and the applicable penalty.

Section 4 Additional regulatory information

4A Non-financial information for the 12 months ended 31 March 2016

Retail - Household	Unmeasured	Measured
Number of households billed ('000s)		
Water only connections	256.8	224.3
Total	256.8	224.3
Number of void households	6.2	9.0
Per capita consumption (excluding supply pipe leakage) l/h/d	156.2	120.4

Wholesale	Water
Volume (Ml/d)	
Bulk supply export	5.6
Bulk supply import	0.8
Distribution input	265.8

4B Totex Analysis

	Current Year Water £m	Cumulative Water £m
Actual totex		
Menu totex	68.3	68.3
Items excluded from the menu		
Pension deficit recovery payments	0.3	0.3
Third party costs	1.2	1.2
Other adjustments	0.0	0.0
Total costs excluded from the menu	1.5	1.5
Actual totex	69.8	69.8
Actual totex base year prices	65.9	65.9
Allowed totex - base year prices	88.1	88.1

Allowed totex exceeds actual totex in base year prices by £22.2m. We have set AMP6 budgets that spends the allowance over the five years, but with a different yearly profile to that in the determination. Therefore capital expenditure is significantly lower than the allowance in the current year and accounts for most of the difference, £18.5m. A curtailment gain of £3.1m which occurred on closure of the defined benefit pension scheme is included in operating costs. Operating cost efficiencies of £0.7m have been achieved. The remaining difference is due to favourable weather conditions, and vacancies during the restructuring of the company to the new target operating model, offset by consultancy costs of £1.4m incurred during the appeal to the CMA.

4C Forecast impact of performance on RCV

	2016
	£m
RCV determined at FD	441.2
RCV element of Totex over/underspend	(9.4)
Allowance (Rewards/penalties - ODI)	0.0
Projected 'shadow' RCV	431.8

We expect the totex underspend to reverse in future periods due to timing of expenditure.

4D Totex analysis for the 12 months ended 31 March 2016 - wholesale water

	Water resources		Raw water distribution			
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure						
Power	0.0	2.3	0.0	4.2	1.7	8.2
Income treated as negative expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Abstraction charges/ discharge consents	2.8	0.0	0.0	0.0	0.0	2.8
Bulk supply/Bulk discharge	0.0	0.1	0.0	0.0	0.0	0.1
Other operating expenditure	0.0	4.9	0.7	9.9	12.7	28.2
Local authority rates	0.0	1.3	0.1	0.4	3.0	4.8
Total operating expenditure excluding third party services	2.8	8.6	0.8	14.5	17.4	44.1
Third party services	0.1	0.1	0.0	0.3	0.7	1.2
Total operating expenditure	2.9	8.7	0.8	14.8	18.1	45.3
Capital expenditure						
Maintaining the long term capability of the assets - infra	0.0	0.0	0.0	0.0	5.7	5.7
Maintaining the long term capability of the assets - non-infra	0.0	0.3	0.1	2.6	2.3	5.3
Other capital expenditure - infra	0.0	0.0	0.0	0.0	8.2	8.2
Other capital expenditure - non-infra	0.0	0.2	0.0	5.7	3.2	9.1
Total gross capital expenditure (excluding third party)	**0.0**	**0.5**	**0.1**	**8.3**	**19.4**	**28.3**
Third party services	0.0	0.0	0.0	0.0	0.0	0.0
Total gross capital expenditure	**0.0**	**0.5**	**0.1**	**8.3**	**19.4**	**28.3**
Grants and contributions	0.0	0.0	0.0	0.0	(4.2)	(4.2)
Totex	2.9	9.2	0.9	23.1	33.3	69.4

There were no costs allocated to raw water storage in the raw water distribution category.

4D Totex analysis for the 12 months ended 31 March 2016 - wholesale water (continued)

	Water resources		Raw water distribution			
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Water treatment £m	Treated water distribution £m	**Total £m**
Cash expenditure						
Pension deficit recovery payments	0.0	0.0	0.0	0.1	0.2	**0.3**
Other cash items	0.0	0.0	0.0	0.0	0.1	**0.1**
Totex including cash items	2.9	9.2	0.9	23.2	33.6	**69.8**

Unit cost information (operating expenditure)

	Licenced volume available	Volume abstracted	Volume transported	Average volume stored	Distribution input from water treatment	Distribution input treated water
Volume (Ml)	181,442	105,012	98,880	35,910	97,239	97,239
Unit cost (£/Ml)	15.8	83.1	8.6	0.0	152.0	186.4

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 4.04, 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 over 94% of the net book value has been attributed directly to a business unit. 5% of assets are allocated to general and support, a category which is then reallocated over the business units, and less than 1% are apportioned over the business units. 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.

Assets in the retail business unit are computers (mainly the billing system), vehicles and some general equipment. A joint venture company undertakes the billing of customers, in a property which they rent, so there are no land, property or fixtures and fittings.

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 81% of costs being directly allocated to business units, and 19% 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.

4Di. Accounting separation policy (continued)

During the year there were changes to the methodology to reflect the new RAGs issued in October 2015. 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 years expenditure and capital maintenance costs with last years.

4F Operating cost analysis for the 12 months ended 31 March 2016 - household retail

	Household unmeasured Water only £m	Household measured Water only £m	Total £m
Operating expenditure			
Customer Services	0.9	0.9	1.8
Debt management	0.3	0.1	0.4
Doubtful debts	1.8	0.6	2.4
Meter reading	0.0	0.4	0.4
Other operating expenditure	1.6	1.4	3.0
Total operating expenditure excluding third party services	4.6	3.4	8.0
Depreciation	0.1	0.1	0.2
Total operating costs excluding third party services	4.7	3.5	8.2

Other operating expenditure includes the net retail expenditure for the following retail activities which are part funded by wholesale

Household	£m
Demand-side water efficiency - gross expenditure	0.1
Demand-side water efficiency - expenditure funded by wholesale	0.1
Demand-side water efficiency - net retail expenditure	0.0
Customer-side leak repairs - gross expenditure	0.2
Customer-side leak repair - expenditure funded by wholesale	0.2
Customer-side leak repair - net retail expenditure	0.0

4G Wholesale current cost performance

Income statement	Water Total £m
Revenue	98.1
Operating expenditure	(45.3)
Capital maintenance charges	(41.0)
Other operating income	0.0
Current cost operating profit	11.8
Other income	0.4
Interest income	6.2
Interest expense	(15.0)
Interest expense related to the unwinding of discounted liabilities	0.0
Current Profit before tax and fair value movements	3.4
Fair value gains/(losses) on financial instruments	0.0
Current Profit before tax	3.4

NOTES TO THE CURRENT COST ACCOUNTS FOR THE APPOINTED BUSINESS

4Gi. Current cost accounting policies

This income statement has been prepared for the wholesale control of Bristol Water plc in accordance with CCA guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry, in RAG 1.06. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

From 1 April 2015 companies were required to adopt a new accounting standard and the Company has adopted Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework' (under EU IFRS).

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except as set out below:

(a) **Tangible fixed assets**

The valuation of all assets is based on the modern equivalent asset valuation produced by the Asset Management Plan (AMP) valuation at 31 March 2008, as amended for additions, disposals, and retail price index adjustments after this date to the period ended 31 March 2016. This equates to a proxy for depreciated replacement cost of their operating capability.

To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

4Gi Current cost accounting policies (continued)

Land and buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 2008 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 2008 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI and amended for additions and disposals. The unamortised portion of third party contributions received since 31 March 1990 is deducted in arriving at net operating assets (as described below).

The valuation of land and buildings for both specialised and non-specialised properties is undertaken by a Chartered Surveyor employed by the company.

Infrastructure assets

Mains, impounding and pumped raw water storage reservoirs and dams are valued at a proxy replacement cost determined principally on the basis of data provided by the AMP. A continuing process of refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. This is in conjunction with the determination of price limits by Ofwat at 5 yearly intervals. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year and amended for additions and disposals.

Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. The last valuation included was at 31 March 2008. Between periodic reviews, values are restated for inflation as measured by changes in the RPI, and amended for additions and disposals.

Surplus land

Surplus land is valued at recoverable amounts taking into account the part of any proceeds which are required to be passed onto customers under Condition B of the Licence of Appointment.

(b) Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance brought forward is restated for the change in RPI for the year prior to inclusion in the carried forward balance.

(c) Basis of allocation and apportionment of costs and assets (continued)

Costs in respect of the maintenance of the network of pipes and pumped raw water storage reservoirs are treated as infrastructure maintenance and are charged as infrastructure renewals expenditure.

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

4H Financial Metrics

	Units	DPs	Metric
Net debt	£m	3	303.331
Regulated equity	£m	3	137.871
Regulated gearing	%	2	68.75
Post tax return on regulated equity	%	2	20.17
RORE (return on regulated equity)	%	2	4.15
Dividend yield	%	2	-
Retail profit margin - Household	%	2	3.02
Retail profit margin - Non household	%	2	(4.01)
Credit rating	n/a	n/a	Baa1
Return on RCV	%	2	7.91
Dividend cover	dec	2	-
Funds from operations (FFO)	£m	3	40.324
Interest cover (cash)	dec	2	5.76
Adjusted interest cover (cash)	dec	2	2.63
FFO/Debt	dec	2	0.13
Effective tax rate	%	2	5.26
Free cash flow (RCF)	£m	3	37.098
RCF/capex	dec	2	1.12
Revenue (actual)	£m	3	107.600
EBITDA (actual)	£m	3	55.95
Proportion of borrowings which are fixed rate	%	2	42.30
Proportion of borrowings which are floating rate	%	2	3.82
Proportion of borrowings which are index linked	%	2	53.88
Proportion of borrowings due within 1 year or less	%	2	0.13
Proportion of borrowings due in more than 1 year but no more than 2 years	%	2	6.57
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	2	16.43
Proportion of borrowings due in more than 5 years but no more than 20 years	%	2	58.39
Proportion of borrowings due in more than 20 years	%	2	18.48

4H Financial Metrics

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 the base RORE set at the final determination should be adjusted for the following factors net of any tax impact:

	£m		
RORE in final determination		**5.80%**	
The company share of totex out or under performance	0.0		This is nil reflecting the forecast position at the end of the AMP.
The company share of any out or underperformance on retail costs.	-0.4		This is the excess spend on retail in the year.
The impact on the RCV run off of the out or under performance of totex	0.0		This is zero for Bristol Water
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	-1.1		The penalties are £0.7m for Unplanned Customer Minutes Lost, £0.3m Mean Zonal Compliance and £0.1m Meter Penetration
The difference between the actual interest charge (in real terms) and the allowed interest (real) on notional debt.	-1.8		Applying actual interest rates to notional debt
Tax impact	0.6		Tax calculated at 20%
Total	-2.7	-1.65%	Total adjustment expressed as a % of the regulatory equity
RORE		**4.15%**	

The dividend yield is zero, as the dividends paid out during the year were paid in respect of interest on inter-company loans, and the guidance specifically states these are to be excluded from this line.

4I Financial derivatives

	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	Units	Payable	Receivable
Derivative type									
Interest rate swap (sterling)									
Floating to/from fixed rate	10.0	50.0	0.0	60.0	2.1	0.3	%	2.09	0.61
Floating to/from index linked	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Fixed to/from index-linked	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Total	10.0	50.0	0.0	60.0	2.1	0.3			
Foreign Exchange									
Cross currency swap USD	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Cross currency swap EUR	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Cross currency swap YEN	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Cross currency swap Other	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Total	0.0	0.0	0.0	0.0	0.0	0.0			
Currency interest rate									
USD	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
EUR	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
YEN	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Other	0.0	0.0	0.0	0.0	0.0	0.0	%	0.00	0.00
Total	0.0	0.0	0.0	0.0	0.0	0.0			
Forward currency contracts									
USD	0.0	0.0	0.0	0.0	0.0	0.0	£m	0.000	0.000
EUR	0.0	0.0	0.0	0.0	0.0	0.0	£m	0.000	0.000
YEN	0.0	0.0	0.0	0.0	0.0	0.0	£m	0.000	0.000
Other	0.0	0.0	0.0	0.0	0.0	0.0	£m	0.000	0.000
Total	0.0	0.0	0.0	0.0	0.0	0.0			
Total	10.0	50.0	0.0	60.0	2.1	0.3			

RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Holdings UK Limited group of companies, members of Capstone Infrastructure Corporation Group (Capstone), members of the Agbar Suez Environnement Company S.A group of companies and key management personnel.

The principal related parties are:

CSE Water UK Limited, registered in England and Wales, whose year-end is 31 December, and is the ultimate UK holding company of Bristol Water plc and is a subsidiary of Capstone.

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

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.

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company is owned 50% by Aqualogy Solutions Limited, a subsidiary and intermediate holding company within the Agbar group, and 50% by Serco UK Limited. ASTS provides IT consultancy services, and security asset management services. Following a competitive tendering process, ASTS is contracted to provide IT maintenance and development services to the company.

Suez Advanced Solutions UK Limited (SAS) (previously Aqualogy Environment Limited), registered in England and Wales, whose year-end is 31 December. This company is a subsidiary within the Agbar group and is engaged in providing infrastructure asset management services to the water industry. The principal activities include a patented process called “Ice Pigging” which uses ice to clean pipes. SAS also provides sub-licences to customers for the use of Ice Pigging technology in other countries.

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.

RELATED PARTY TRANSACTIONS (continued)

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service received £m
Management charge	Bristol Water Holdings UK Group of companies	-	No market	-
Mains refurbishment patented process	Suez Advanced Solutions UK (formerly Aqualogy Environment Limited)	5.3	Monopoly provider	-
Water Hygiene Monitoring and other services	Suez Advanced Solutions UK (formerly Aqualogy Environment Limited)	5.3	Benchmarking	0.1
Consultancy services	Suez Advanced Solutions Holdings UK Limited (formally Aqualogy Solutions and Technologies Limited)	4.0	No market	0.1
Managed billing service	Bristol Wessex Billing Services Limited	15.2	Competitive Tender	3.0
Recharges for costs	Bristol Wessex Billing Services Limited	15.2	Cost pass through	0.2
Capital expenditure	Bristol Wessex Billing Services Limited	15.2	Cost pass through	0.1

Group tax relief

Bristol Water plc claims group tax relief from the non-regulated companies in the Bristol Water group. The non-regulated companies within Bristol Water Group have a December year-end. The amount of the group relief claimed for 2015/16 is not yet ascertained. The 2014/15 and 2015/16 Bristol Water plc tax computations included group relief surrendered by the non-regulated companies based on their accounts for the year to December 2015 of £5.2m. Further group relief will be surrendered for the period January to March 2016, but the amount of relief for this period is yet to be finalised. 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 year ended 31 December 2015 was settled in quarterly payments in line with the dates that that corporation tax would normally be paid.

RELATED PARTY TRANSACTIONS (continued)

Borrowing/lending with associated companies and related facilities

A loan of £47m was made to Bristol Water Holdings UK Limited (formerly Bristol Water Group Limited, ultimate parent company 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 £2.8m (2014:15: £2.8m) was received in relation to the loan during 2015/16.

A further loan of £21.5m was made to Bristol Water Holdings UK Limited (formerly Bristol Water Group 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 5.55%. Interest income of £1.2m (£1.2m : 2014/15) was received in relation to the loan in 2015/16.

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 £0.4m (2014/15: £0.4m) 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.

Dividends 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 2016 financial year:
    - First interim for the inter-company loan interest element of £1.6m
    - Second interim for the inter-company loan interest element of £1.6m

In addition, annual dividends of £1.1m (2015: £1.1m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the balance sheet, and the dividend is therefore shown as a finance cost in the profit and loss account.

The Board has proposed a final dividend in respect of the year ended 31 March 2016 of £1.0m (2015 £nil).

DIRECTORS' REMUNERATION

The Annual Report for Bristol Water plc contains a detailed Remuneration Committee report, setting out the basis of Director remuneration including bonuses and standards of performance. The bonus and LTIP arrangements were set on 26 May 2016.

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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounting statements may differ from legislation in other jurisdictions.

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

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Bristol Water plc

Opinion on Annual Performance Report
In our opinion, Bristol Water's Regulatory Accounting Statements within the Annual Performance Report:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.06, RAG2.05, RAG3.08, RAG4.05 and RAG5.06) and the accounting policies set out on page 11,13,6,17,24,26,27(including the accounting separation methodology), the state of the Company's affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation
Financial information other than that prepared on the basis of UK GAAP 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 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 Accounting Practice ("UK GAAP").

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 accounting separation methodology) set out in the statement of accounting policies and under the historical cost convention.

The Regulatory Accounting Statements on pages 1 to 30 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.

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) and the revenue analysis by customer type (table 2I) and the related notes.

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

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

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

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

Respective responsibilities of the WSRA, the Directors and Auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the Annual Performance Report and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 4Di and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2016. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F
Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

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

BRISTOL WATER plc

ANNUAL PERFORMANCE REPORT
for the year ended 31 March 2016

Other matters
The nature, form and content of the Annual Performance Report is determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WRSA's purposes. Accordingly we make no such assessment.

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 2016 on which we reported on 14 July 2016, 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
14 July 2016

RISK AND COMPLIANCE STATEMENT

This Risk and Compliance Statement is provided in accordance with Ofwat's expectations as set out in Information Notice IN15/18, to confirm that the Board considers that the Company has complied with all relevant statutory, licence and regulatory obligations.

Confirmations

The Board of Bristol Water

1) is committed to deliver the outcomes for our customers over AMP 6 and to meet our other obligations;
2) is confident of our ability to meet our customers' expectations in an efficient manner.
3) considers that it has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations;
4) has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
5) has appropriate systems and processes in place to allow it to identify, manage and review its risks.

Compliance with legislation and licence conditions

The Board of Bristol Water confirms that it is compliant with the following requirements:

a) that there are sufficient rights and assets available to enable a special administrator to run the business, in accordance with licence condition K;
b) that trade with associates is at arm's length, as required by licence condition F6;
c) a statement is published in the regulatory accounts explaining links between directors' pay and standards of performance, as required by section 35A of the Water Industry Act 1991;
d) in particular, the Board of Bristol Water confirms that it has complied with Condition F.6A.1, namely:
    - that Bristol Water shall at all times act in the manner best calculated to ensure that it has adequate
        - financial resources and facilities, and
        - management resources

    to enable it to carry out the Regulated Activities (including the investment programme necessary to fulfil its obligations under the Appointment.)

Signed for and on behalf of the Board:

Keith Ludeman	Luis García
Chairman	Chief Executive Officer

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:

(1) Financial resources:

- Profit and loss budget, and capital programme, for 2016/17, 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 balance sheet of £18m at 31 March 2016
- Unutilised committed term facilities of £50m with HSBC and a further unutilised committed term facility of £20m with the Royal Bank of Scotland as at 31 March 2016

(2) Management resources:

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

(3) Associated company contracts:

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

Approved by the Board and signed on its behalf on by

L García Chief Executive Officer

M Axtell Chief Financial Officer