BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS

YEAR ENDED 31 MARCH 2015

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2015

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 issued by the Water Services Regulation Authority (Ofwat). These regulatory accounts have been prepared for use by Ofwat. They may not be appropriate for any other purpose. As required by Ofwat, they do not correspond with the statutory annual report particularly in respect of infrastructure renewals accounting.

The statutory annual report contains a suite of reports including an operating and financial review 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 25 July 2015.

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for the year ended 31 March 2015

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PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2015

	Statutory accounts	Net rental income adjustment	Basis for Infrastructure renewals charge adjustment	**Regulatory historical cost accounts Total**	Non-appointed activities	**Regulatory appointed historical cost accounts**
	2015 **£m**	£m	£m	**2015** **£m**	£m	**2015** **£m**
Turnover	**132.8**	(0.4)	-	**132.4**	1.4	**131.0**
Operating costs	**(63.2)**	0.1	-	**(63.1)**	(1.1)	**(62.0)**
Depreciation	**(15.1)**	-	-	**(15.1)**	-	**(15.1)**
Infrastructure renewals charge	**(21.8)**	-	0.4	**(21.4)**	-	**(21.4)**
Gain on disposal of fixed assets	**0.3**	-	-	**0.3**	-	**0.3**
Operating profit	**33.0**	(0.3)	0.4	**33.1**	0.3	**32.8**
Other net income	**-**	0.3	-	**0.3**	-	**0.3**
Net finance costs	**(11.6)**	-	-	**(11.6)**	-	**(11.6)**
Profit before tax	**21.4**	-	0.4	**21.8**	0.3	**21.5**
Taxation	**(7.6)**	**-**	**-**	**(7.6)**	(0.1)	**(7.5)**
Profit after tax	**13.8**	-	0.4	**14.2**	0.2	**14.0**

Ofwat accounting guidelines state that net rental income should be classified as “other income”, below operating profit.

In the statutory accounts the Infrastructure Renewals Charge (IRC) calculation was based on the infrastructure renewals expenditure for the current five year regulatory period until 31 March 2011. From 1 April 2011 the calculation was brought in line with the calculation of the charge in the regulatory accounts, and is based on a fifteen year forward looking period. The small difference in the IRC in the Regulatory Accounts compared to the Statutory Accounts arises from the different opening balances as at 1st April 2011 on the infrastructure renewals provision in each set of Accounts.

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2015

RECONCILIATION BETWEEN STATUTORY ANNUAL ACCOUNTS AND THE REGULATORY ACCOUNTS HISTORICAL COST ACCOUNTING STATEMENTS

BALANCE SHEET
at 31 March 2015

	Statutory accounts	Infrastructure renewals charge adjustment	Infrastructure renewals provision adjustment	**Regulatory historical cost accounts total**	Non-appointed activities	**Regulatory appointed historical cost accounts**
	2015 £m	£m	£m	**2015 £m**	£m	**2015 £m**
Tangible fixed assets (net book value)	**364.0**	(3.8)	(10.4)	**349.8**	1.3	**348.5**
Investments-loans to a UK parent company	**68.5**	-	-	**68.5**	-	**68.5**
Net current assets	**3.4**	**-**	10.4	**13.8**	(1.3)	**15.1**
Creditors-amounts falling due after more than one year	**(306.7)**	-	-	**(306.7)**	-	**(306.7)**
8.75% Irredeemable preference shares	**(12.5)**	-	-	**(12.5)**	-	**(12.5)**
Deferred Income	**(7.8)**	-	-	**(7.8)**	-	**(7.8)**
Provisions for liabilities	**(27.3)**	-	-	**(27.3)**	-	**(27.3)**
Retirement benefit surplus	**11.3**	-	-	**11.3**	-	**11.3**
Net assets	**92.9**	(3.8)	-	**89.1**	-	**89.1**
Capital and reserves						
Total shareholders' funds	**92.9**	(3.8)	-	**89.1**	-	**89.1**

In the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS15: Tangible Fixed Assets. Infrastructure renewals expenditure is included in additions to fixed assets and the Infrastructure Renewals Charge (IRC) is included in depreciation. However for the purposes of the regulatory accounts, Ofwat requires that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years and the inclusion of an infrastructure renewals provision. The £3.8m IRC difference on the balance sheet represents the cumulative difference between the IRC in the Statutory Annual Report and the regulatory accounts.

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2015

RECONCILIATION BETWEEN STATUTORY ANNUAL ACCOUNTS AND THE REGULATORY ACCOUNTS HISTORICAL COST ACCOUNTING STATEMENTS

Below is a reconciliation of the fixed assets in the Statutory Annual Report to those in the regulatory appointed historical cost accounts:

FIXED ASSETS
At 31 March 2015

	Statutory Accounts 2015 £m	Adjustment to opening balance in respect of infrastructure renewals accounting £m	Infrastructure renewals expenditure additions in year adjustment £m	Reallocated statutory accounts IRC for year £m	**Regulatory historical cost accounts total 2015 £m**	Non-appointed activities £m	**Regulatory appointed historical cost accounts 2015 £m**
Cost							
Freehold land and operational structures	**309.8**	-	-	-	**309.8**	1.7	**308.1**
Plant & equipment	**60.4**	-	-	-	**60.4**	0.3	**60.1**
Infrastructure assets	**390.1**	(234.1)	(25.8)	-	**130.2**	-	**130.2**
Assets under construction	**15.8**	-	-	-	**15.8**	-	**15.8**
Total	**776.1**	(234.1)	(25.8)	-	**516.2**	2.0	**514.2**
Depreciation							
Freehold land and operational structures	**126.2**	-	-	-	**126.2**	0.5	**125.7**
Plant & equipment	**40.2**	-	-	-	**40.2**	0.2	**40.0**
Infrastructure assets	**245.7**	(223.9)	-	(21.8)	**-**	-	**-**
Total	**412.1**	(223.9)	-	(21.8)	**166.4**	0.7	**165.7**
Net Book Value							
Freehold land and operational structures	**183.6**	-	-	-	**183.6**	1.2	**182.4**
Plant & equipment	**20.2**	-	-	-	**20.2**	0.1	**20.1**
Infrastructure assets	**144.4**	(10.2)	(25.8)	21.8	**130.2**	-	**130.2**
Assets under construction	**15.8**	-	-	-	**15.8**	-	**15.8**
Total	**364.0**	(10.2)	(25.8)	21.8	**349.8**	1.3	**348.5**

REGULATORY HISTORICAL COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2015

	Appointed business 2015 £m	Non-appointed 2015 £m	**Total 2015 £m**	Appointed business 2014 £m	Non-appointed 2014 £m	Total 2014 £m
Turnover	131.0	1.4	**132.4**	121.8	1.6	123.4
Operating costs	(62.0)	(1.1)	**(63.1)**	(55.9)	(1.3)	(57.2)
Infrastructure renewals charge	(21.4)	-	**(21.4)**	(25.5)	-	(25.5)
Historical cost depreciation	(15.1)	-	**(15.1)**	(12.8)	-	(12.8)
Operating profit/(loss) on disposal of fixed assets	0.3	-	**0.3**	(0.6)	-	(0.6)
Operating profit	32.8	0.3	**33.1**	27.0	0.3	27.3
Other income	0.3	-	**0.3**	0.3	-	0.3
Net interest	(10.5)	-	**(10.5)**	(11.7)	-	(11.7)
Dividends on 8.75% irredeemable cumulative preference shares	(1.1)	-	**(1.1)**	(1.1)	-	(1.1)
Profit on ordinary activities before taxation	21.5	0.3	**21.8**	14.5	0.3	14.8
Taxation - current	(2.2)	(0.1)	**(2.3)**	(2.0)	(0.1)	(2.1)
Taxation - deferred	(5.3)	-	**(5.3)**	4.7	-	4.7
Profit on ordinary activities after taxation	14.0	0.2	**14.2**	17.2	0.2	17.4
Dividends on ordinary shares						
- inter-company loan interest element	(3.2)	-	**(3.2)**	(3.2)	-	(3.2)
- base dividend	(10.1)	(0.2)	**(10.3)**	(9.8)	(0.2)	(10.0)
Profit retained for the year	0.7	-	**0.7**	4.2	-	4.2

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

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2015

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2015

	Appointed business	Non-appointed	**Total**	Appointed business	Non-appointed	Total
	2015 £m	2015 £m	**2015 £m**	2014 £m	2014 £m	2014 £m
Profit attributable to Bristol Water plc shareholders	14.0	0.2	**14.2**	17.2	0.2	17.4
Actuarial gains/losses on retirement benefit plans	1.2	-	**1.2**	(2.0)	-	(2.0)
Change in the fair value of the interest rate swap	(0.5)	-	**(0.5)**	0.6	-	0.6
Total recognised gains for the year	14.7	0.2	**14.9**	15.8	0.2	16.0

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2015

REGULATORY HISTORICAL COST BALANCE SHEET
at 31 March 2015

	Appointed business 2015 £m	Non-appointed 2015 £m	**Total 2015 £m**	Appointed business 2014 £m	Non-appointed 2014 £m	Total 2014 £m
Fixed assets						
Tangible fixed assets	348.5	1.3	**349.8**	334.4	1.3	335.7
Investment – loans to ultimate UK holding company	68.5	-	**68.5**	68.5	-	68.5
Total fixed assets	417.0	1.3	**418.3**	402.9	1.3	404.2
Infrastructure renewals prepayment	10.5	-	**10.5**	6.1	-	6.1
Other current assets	46.4	-	**46.4**	45.9	-	45.9
	56.9	-	**56.9**	52.0	-	52.0
Creditors: amounts falling due within one year						
Borrowings	(0.4)	-	**(0.4)**	(0.4)	-	(0.4)
Other creditors	(41.4)	(1.3)	**(42.7)**	(41.6)	(1.3)	(42.9)
Total creditors: amounts falling due within one year	(41.8)	(1.3)	**(43.1)**	(42.0)	(1.3)	(43.3)
Net current assets / liabilities	15.1	(1.3)	13.8	10.0	(1.3)	8.7
Total assets less current liabilities	432.1	-	**432.1**	412.9	-	412.9
Creditors: amounts falling due after more than one year	(306.7)	-	**(306.7)**	(292.1)	-	(292.1)
Provisions for liabilities and charges	(27.3)	-	**(27.3)**	(21.3)	-	(21.3)
Preference share capital	(12.5)	-	**(12.5)**	(12.5)	-	(12.5)
Deferred income	(7.8)	-	**(7.8)**	(8.3)	-	(8.3)
Retirement benefit scheme surplus	11.3	-	**11.3**	9.0	-	9.0
Net assets employed	89.1	-	**89.1**	87.7	-	**87.7**
Capital and reserves	89.1	-	**89.1**	87.7	-	**87.7**

The accounts were approved by an authorised Committee of the Board on 24 July 2015 and signed on its behalf by

L García, Director

M King, Director

BRISTOL WATER plc

REGULATORY ACCOUNTING STATEMENTS
for the year ended 31 March 2015

CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS
for the year ended 31 March 2015

		Notes	2015 £m	2014 £m
Turnover				
Unmeasured	- household		**59.6**	58.5
	- non-household		**1.2**	1.5
Measured	- household		**38.7**	33.8[1]
	- non-household		**23.5**	21.3[1]
Bulk supplies / inter company payments			**0.6**	0.7
Other third party services (including non-potable water)			**1.2**	0.4
Large users and other sources			**6.2**	5.6[1]
Total turnover			**131.0**	121.8
Current cost operating costs - wholesale		C8	**(95.0)**	(93.1)
Current cost operating costs - retail		C9	**(11.3)**	(10.8)
Operating loss on disposal of fixed assets			**(0.2)**	(0.5)
Working capital adjustment			**0.1**	0.4
Current cost operating profit			**24.6**	17.8
Other income			**0.3**	0.3
Net interest			**(10.5)**	(11.6)
Dividends on 8.75% irredeemable cumulative preference shares			**(1.1)**	(1.1)
Financing adjustment			**1.9**	4.5
Current cost profit before taxation			**15.2**	9.9
Net revenue movement out of tariff basket			**(0.1)**	0.2

1. The 2014 analysis of turnover has been restated following identification of income being incorrectly categorised between measured household (£34.4m), non-household (£21.0m) and major users (£5.3m). Total turnover remains unchanged (£121.80m).

The accompanying notes to the accounts form an integral part of this statement.

CURRENT COST CASH FLOW STATEMENT FOR THE APPOINTED BUSINESS for the year ended 31 March 2015

	Notes	2015 £m	2014 £m
Current cost operating profit		**24.6**	17.8
Working capital adjustment		**(0.1)**	(0.4)
Movement in working capital	C13	**(2.8)**	1.5
Receipts from other income		**0.3**	0.3
Current cost depreciation		**22.9**	21.3
Current cost loss on sale of fixed assets		**0.2**	0.5
Additional contributions to pension scheme		**(0.4)**	(0.4)
Infrastructure renewals charge		**21.4**	25.5
Movement in provisions		**2.1**	(0.1)
Net cash inflow from operating activities		**68.2**	66.0
Returns on investments and servicing of finance		**(8.3)**	(7.8)
Taxation paid		**(2.6)**	(1.1)
Capital expenditure and investing activities			
Gross cost of purchase of fixed assets		**(34.9)**	(50.1)
Receipt of grants and contributions		**3.6**	4.0
Infrastructure renewals expenditure		**(25.8)**	(33.6)
Disposal of fixed assets		**0.5**	0.1
Net cash outflow from investing activities		**(56.6)**	(79.6)
Equity dividends paid		**(13.3)**	(13.0)
Net cash flow from management of liquid resources		**2.0**	7.5
Net cash outflow before financing		**(10.6)**	(28.0)
Net cash inflow from financing		**10.3**	35.5
(Decrease) / increase in cash		**(0.3)**	7.5

The accompanying notes to the accounts form an integral part of this statement.

NOTES TO THE CURRENT COST ACCOUNTS FOR THE APPOINTED BUSINESS

C1. Current cost accounting policies

These accounts have been prepared for the Appointed Business of Bristol Water plc in accordance with guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry. 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.

The company has not adopted International Financial Reporting Standards (IFRS) for its financial statements for the year ended 31 March 2015. 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 2015. 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.

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.

C1. Current cost accounting policies (continued)

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) Real financial capital maintenance adjustments

These adjustments are made to the historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Working capital adjustment

This is calculated by applying the change in RPI over the year to the opening working capital.

Financing adjustment

This is calculated by applying the change in RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from:

- those included in working capital,
- deferred tax provision, and
- retirement benefit scheme surplus net of associated deferred taxation.

(d) 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.

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.

Capital costs are defined as those costs which are incurred in providing an additional or a replacement non-infrastructure asset. In addition, costs in respect of the provision of additional infrastructure capacity or enhancement of the network are also capitalised. 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 £1,000 in total would be capitalised.

C1. Current cost accounting policies (continued)

(d) **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.

(e) **Pension costs**

The company has adopted FRS 17, as included in note 23 'Retirement benefit surplus' in the statutory accounts.

C2. Appointed business

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.

C3. 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.

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.

C3. Revenue recognition policy (continued)
Charging policy (continued)

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.

C4. Revenue performance

Turnover is £2.8m higher (2.1%) than that assumed in FD10. This is the effect of non-tariff basket items being higher than assumed in the FD. The main difference in non-tariff basket items relates to revenues from large users £1.8m. The FD forecast non-tariff basket revenues falling over the period 2010/11 to 2014/15, but the 2014/15 revenues are within £0.1m of 2010/11 in real terms. A further difference of £0.6m is due to a number of large rechargeable schemes being completed during the year for which we have incurred equivalent costs.

As all new customers are measured, and unmeasured customers can choose to change to being measured, there is a significant increase in measured customers turnover and only a small increase in unmeasured turnover.

The tariff increases are in line with the Final Determination set by the Competition Commission in 2010 that reflected the increased capital expenditure.

There are no back-billing amounts for the years ending 31 March 2015 or 2014.

C5. 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 current cost fixed asset register is held in the company accounting system at a very detailed level. Each asset on it has been reviewed and 97.6% have been attributed directly to a business unit. 2.3% of assets are allocated to general and support, a category which is then reallocated over the business units, and the remaining 0.1% are apportioned over the business units. Internal guidelines have been established mapping current cost 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 negated 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 86% of costs being directly allocated to business units, and 14% 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.

There were no changes to the methodology during the year.

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.

C6. 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 2009/10 and before is fully provided for by the end of financial year 2014/15. 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.

C6. Bad debt policy (continued)

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 no significant variation in the level of write off from the previous year.

The provision at 31 March 2015 was £16.2m (31 March 2014: £15.3m). The increase from last year predominantly reflects the higher bad debt charge in respect of higher bills in 2014/15 compared to 2013/14 offset by the debt written off as uncollectable.

Net trade debtor balance at 31 March 2015 was £14.0m (31 March 2014: £13.5m). The increase compared to the last year is predominantly due to higher bills.

C7. 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) but are not depreciated. Other infrastructure expenditure to do with repair and replacement such as boundary mains replacement, network analyses, lead replacements and high-risk crossings are charged to the profit and loss account in the form of the Infrastructure Renewals Charge.

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.

There have been no changes to the capitalisation policy during the year, nor any changes in judgements, apportionments or adjustments.

C8. Operating cost analysis for the 12 months ended 31 March 2015 - Wholesale					
	Resources	Raw water distribution	Treatment	Treated distribution	**Total**
	£m	£m	£m	£m	**£m**
Operating expenditure					
Power	1.6	-	4.7	1.7	8.0
Service charges	2.5	-	-	0	2.5
Bulk supply imports	0.2	-	-	0	0.2
Other operating expenditure	5.7	0.7	13.2	15.0	34.6
Local authority rates	1.3	0.1	0.4	3.0	4.8
Total operating expenditure excluding third party services	**11.3**	**0.8**	**18.3**	**19.7**	**50.1**
Capital maintenance					
Infrastructure renewals charge	3.5	0.5	-	17.4	**21.4**
Current cost depreciation	1.2	0.1	12.9	8.6	**22.8**
Amortisation of deferred credits	-	-	(0.8)	(0.1)	**(0.9)**
Total capital maintenance excluding third party services	**4.7**	**0.6**	**12.1**	**25.9**	**43.3**
Third party services					
Operating expenditure	0.2	-	0.3	0.8	**1.3**
Current cost depreciation	-	-	0.3	-	**0.3**
Total operating costs	**16.2**	**1.4**	**31.0**	**46.4**	**95.0**

The accounting separation methodology statements published on our website provides variance analysis against last year's expenditure for tables C8 and C9.

C9. Operating cost analysis for the 12 months ended 31 March 2015 – Retail business only	Household	Non-household	**Total**
	£m	£m	**£m**
Operating expenditure			
Customer services	2.9	0.3	**3.2**
Debt management	0.7	0.1	**0.8**
Doubtful debts	3.2	0.4	**3.6**
Meter reading	0.4	0.1	**0.5**
Services to developers	-	0.2	**0.2**
Other operating expenditure	1.8	0.2	**2.0**
Total operating expenditure excluding third party services	**9.0**	**1.3**	**10.3**
Third Party Services	0.1	0.3	**0.4**
Total operating expenditure	**9.1**	**1.6**	**10.7**
Capital maintenance			
Current cost depreciation	0.6	-	0.6
Total capital maintenance	0.6	-	0.6
Total operating costs	**9.7**	**1.6**	**11.3**
Debt written off	2.4	0.2	2.6

C10. Current cost analysis of fixed assets - wholesale business

	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	**Total £m**
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	60.8	3.5	605.2	348.3	1,017.8
Reclassification adjustment	(1.1)	0.4	0.8	2.4	2.5
RPI adjustment	0.5	-	5.4	3.2	9.1
Disposals	(0.6)	(0.2)	(4.4)	(5.0)	(10.2)
Additions	5.6	0.2	7.6	12.8	26.2
At 31 March 2015	**65.2**	**3.9**	**614.6**	**361.7**	**1,045.4**
Depreciation					
At 1 April 2014	(23.1)	(2.1)	(405.1)	(192.6)	(622.9)
Reclassification adjustment	1.2	(0.2)	(1.0)	(1.1)	(1.1)
RPI adjustment	(1.7)	-	(2.5)	(1.4)	(5.6)
Disposals	0.6	0.2	3.9	4.9	9.6
Charge for year	(1.2)	(0.1)	(13.1)	(8.8)	(23.2)
At 31 March 2015	**(24.2)**	**(2.2)**	**(417.8)**	**(199.0)**	**(643.2)**
Net book amount at 31 March 2015	**41.0**	**1.7**	**196.8**	**162.7**	**402.2**
Net book amount at 1 April 2014	**37.7**	**1.4**	**200.1**	**155.7**	**394.9**
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	664.4	67.8	-	1,476.4	2,208.6
RPI adjustment	6.0	0.6	-	13.3	19.9
Additions	0.2	-	-	5.6	5.8
At 31 March 2015	**670.6**	**68.4**	**-**	**1,495.3**	**2,234.3**

The accounting separation methodology statement for tables C10 and C11 published on our website provides details of our capitalisation policy

C11. Current cost analysis of fixed assets – retail business only

	Household £m	Non-household £m	**Total £m**
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	18.8	1.4	20.2
Reclassification adjustment	(2.3)	(0.2)	(2.5)
RPI adjustment	0.1	-	0.1
Disposals	(0.9)	(0.1)	(1.0)
Additions	1.4	0.1	1.5
At 31 March 2015	**17.1**	**1.2**	**18.3**
Depreciation			
At 1 April 2014	(13.1)	(1.0)	(14.1)
Reclassification adjustment	1.0	0.1	1.1
RPI adjustment	(0.1)	-	(0.1)
Disposals	0.9	-	0.9
Charge for year	(0.6)	-	(0.6)
At 31 March 2015	**(11.9)**	**(0.9)**	**(12.8)**
Net book amount at 31 March 2015	**5.2**	**0.3**	**5.5**
Net book amount at 1 April 2014	5.7	0.4	6.1

C12. Analysis of capital expenditure, grants and land sales for the 12 months ended 31 March 2015)

	2015			2014		
	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net
	£m	£m	£m	£m	£m	£m
Capital expenditure						
Base						
Infrastructure Renewals Expenditure (IRE)	25.8	-	25.8	33.6	-	33.6
Maintenance non-infrastructure (MNI)	18.4	-	18.4	18.5	-	18.5
Enhancements						
Infrastructure enhancements	5.8	(3.6)	2.2	9.2	(4.1)	5.1
Non-infrastructure enhancements	9.3	-	9.3	14.8	-	14.8
Total capital expenditure	**59.3**	**(3.6)**	**55.7**	**76.1**	**(4.1)**	**72.0**
Grants and contributions						
Developer contributions (i.e. enhancement requisitions, grants and contributions)		(2.4)			(2.7)	
Infrastructure charge receipts - new connections		(1.2)			(1.3)	
Other Contributions		-			(0.1)	
Total grants and contributions		(3.6)			(4.1)	
Total capital expenditure	**59.3**	**(3.6)**	**55.7**	**76.1**	**(4.1)**	**72.0**

C13. Working capital

		2015 £m	2014 £m
Stocks		**1.3**	1.3
Trade debtors	- measured household	**5.1**	4.7
	- unmeasured household	**4.8**	5.2
	- measured non-household	**3.6**	3.3
	- unmeasured non-household	**0.1**	-
	- other	**0.3**	0.3
Measured income accrual		**15.4**	13.1
Prepayments and other debtors		**3.6**	2.1
Trade creditors		**(3.5)**	(3.3)
Deferred income – customer receipts in advance		**(13.1)**	(12.3)
Accruals and other creditors		**(12.4)**	(12.0)
Total working capital (excluding capital creditors)		**5.2**	2.4
Capital creditors		**(10.9)**	(12.3)
Total working capital		**(5.7)**	(9.9)
Total revenue outstanding	- household	**21.0**	19.9
	- non-household	**3.6**	3.4
		24.6	23.3

C14. Analysis of Net debt, gearing and interest cost

	Interest rate risk profile			**2015 Total**
	Fixed rate £m	Floating rate £m	Index linked £m	**£m**
Borrowings (excluding irredeemable preference shares)	123.2	12.6	171.3	**307.1**
Irredeemable preference share capital				**12.5**
Total borrowings				**319.6**
Cash				**(10.5)**
Short term deposits				**-**
Net debt				**309.1**
Regulatory capital value				**411.7**
Gearing				**75%**
Full year equivalent nominal interest cost	5.3	0.4	9.4	**15.1**
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%	3.2%	5.5%	**4.9%**
Indicative weighted average cash interest rate	4.3%	3.2%	3.4%	**3.7%**
Weighted average years to maturity	11	3	19	

C15. Non-financial information for the 12 months ended 31 March 2015

	2015	2014
Number of properties ('000s)		
Households billed	**477**	473
Non-households billed	**34**	33
Household voids	**10**	10
Non-household voids	**2**	2
Per capita consumption (excluding supply pipe leakage) l/h/d		
Unmeasured household	**158**	159
Measured household	**121**	120

Volume (Ml/d)		
Bulk supply export	**5.1**	5.9
Bulk supply import	**0.8**	0.9
Distribution input	**266.6**	264.1

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.

Aqualogy Environment Limited (AEL), 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. AEL 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	Aqualogy Environment Limited	5.4	Monopoly provider	0.2
I.T. and engineering services	Aqualogy Environment Limited	5.4	Benchmarking	0.4
Legionella risk assessment	Aqualogy Industrial Solutions Limited (formerly Marral Chemicals Limited)	2.1	Benchmarking	-
Consultancy services	Aqualogy Solutions and Technologies Limited	2.9	No market	0.1
Managed billing service	Bristol Wessex Billing Services Limited	14.9	Competitive Tender	2.9
Recharges for costs	Bristol Wessex Billing Services Limited	14.9	Cost pass through	0.4
Capital expenditure	Bristol Wessex Billing Services Limited	14.9	Cost pass through	0.1
IT support contract	AgbarSerco Technology Solutions Limited	1.8	Competitive tender	0.8
Maintenance & repair of security equipment	AgbarSerco Technology Solutions Limited	1.8	Competitive tender	0.2
Systems development and upgrade	AgbarSerco Technology Solutions Limited	1.8	Benchmarking	0.3

96% of the consultancy services for the systems and development upgrades supplied by AgbarSerco Technology Solutions Limited are ultimately provided by Serco UK Limited, an unrelated party.

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 2014/15 is not yet ascertained. The 2013/14 and 2014/15 Bristol Water plc tax computations included group relief surrendered by the non-regulated companies based on their accounts for the year to December 2014 of £5.2m. Further group relief will be surrendered for the period January to March 2015, 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 2014 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 was received in relation to the loan during 2014/15.

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 was received in relation to the loan in 2014/15.

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 (2013/14: £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 2014 financial year:
    - Final base dividend of £3.3m

- in respect of the 2015 financial year:
    - First interim base dividend of £2.3m
    - Second interim for the inter-company loan interest element of £1.6m
    - Third interim base dividend of £2.3
    - Fourth interim base dividend of £2.4
    - Fifth interim for the inter-company loan interest element of £1.6m

In addition, annual dividends of £1.1m (2014: £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 not proposed a final dividend in respect of the year ended 31 March 2015 (£3.3m 2014).

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 10 July 2014 and 30 January 2014 respectively.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 financial 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements 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 financial 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 financial 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 King
Director
24 July 2015

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY ("THE WSRA") AND DIRECTORS OF BRISTOL WATER plc

Opinion on Regulatory Accounts

In our opinion Bristol Water plc's Regulatory Accounts (the "Regulatory Accounts"):

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 10-15 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost 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

In forming our opinion on the Regulatory Accounts, which is not modified, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted 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. Furthermore, the regulatory historical cost accounting statements on pages 5 and 7 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 3.

What we have audited

Bristol Water plc's Regulatory Accounts comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the statutory financial statements and the Regulatory Accounts; and

- the regulatory current cost accounting statements, for the appointed business comprising the current cost profit and loss account, the current cost cash flow statement and the related notes including the Statement of Accounting Policies.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the additional information required by the Licence and the notes to the current cost financial statements.

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.

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 Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the directors are responsible for the preparation of the Regulatory Accounts 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 Accounts in accordance with International Standards on Auditing ("ISA's (UK and Ireland")), except as stated in the 'Scope of the audit of the Regulatory Accounts' 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.

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.

What an audit of Regulatory Accounts involves

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

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are 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 ISA's (UK & Ireland).

Other matters

The nature, form and content of Regulatory Accounts 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 WRSA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we reported on 24 July 2015, 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
Chartered Accountants and Statutory Auditors
Bristol
24 July 2015

REGULATORY CERTIFICATE OF ADEQUACY OF FINANCIAL RESOURCES BY THE DIRECTORS

As required under condition F6A.2A of its Instrument of Appointment 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 2015/16, 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 £10.5m at 31 March 2015
- 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 2015

(2) Management resources:

- Bristol Water plc has a stable and 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 24 July 2015 by

L García Director

M King Director