



Delivering for our customers, and the environment

Bristol Water
Annual Report 2016

BRISTOL
WATER

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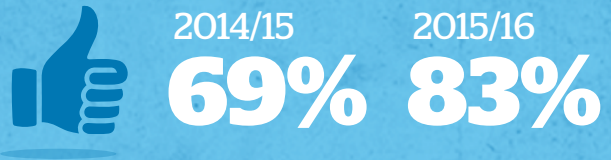
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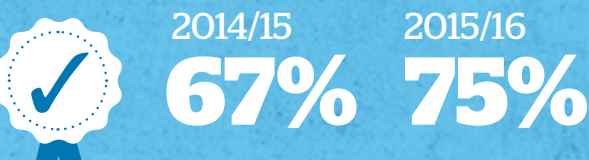
2015/16 highlights

More satisfied customers

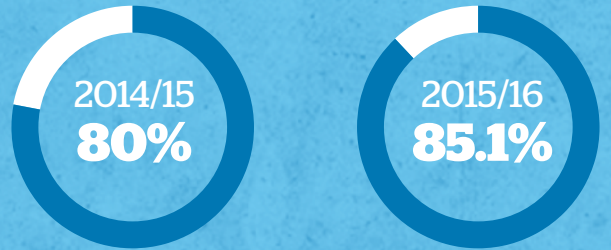
Customer general satisfaction survey



Customer reputation score



SIM score - 5th out of 18

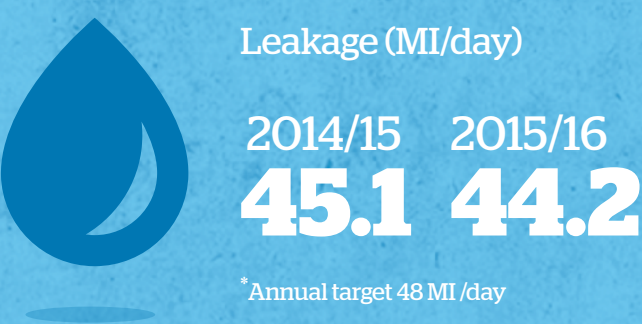
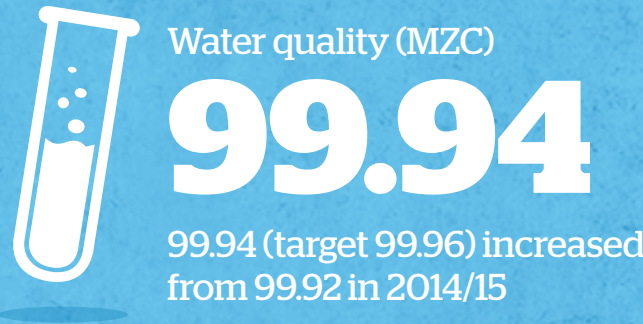


Negative water quality contacts



Improving performance

Unplanned customer minutes lost



Chairman's welcome



The water industry is experiencing change on a scale not seen since privatisation in the early 1990s. All companies are having to respond and prepare for retail competition and a regulatory climate that seeks to reduce the cost of utilities to customers whilst ensuring the resilience of the underlying infrastructure.

At Bristol Water, we will respond to these changes in a way that continues to put our customers first.

Since privatisation, the water industry in general has been focused on investment in infrastructure at a price to customers that was deemed acceptable. Now every cost to the customer has to represent good value for money; we have to be smarter in engineering and maintaining our assets, manage risks better and deliver this and improved customer service at a lower cost.

Looking back at 2015/16, whilst the CMA redetermination provided the stability we needed it set out significant cost challenges. We know it is in the interest of our customers and our business to be as efficient as we can. In the last year we have responded to these challenges. We have had to make some tough business decisions, including stopping our final salary pension scheme and reducing our workforce by 10% in the largest restructure in our company's recent history. Through the restructure, we have taken a major leap forward in terms of modernising and now have an operating model that will help us meet the changes ahead.

All these initiatives have been part of a bundle of measures we have put in place to put our business on the best possible platform to meet the challenges that lie ahead.

Retail non-household competition is upon us, and we are deeply immersed in preparing for Open Water and developing our new wholesale/retail interface. Retail household competition is on the horizon.

Despite the disruption and upheaval, we have had a good year in terms of performance.

The 2015-2020 infrastructure and mains renovation schemes are now underway, and we have also been working on optimisation at our treatment works to help improve efficiency and save costs. All this is contributing to our recent ISO 50001 status, which is a significant achievement for the company and demonstrates our deep commitment to efficiency.

We recognise that our 1.2 million customers have a wide range of needs and preferences in the way they access our services and how we communicate with them. One thing people always say they like about Bristol Water is the ability to pick up the phone and speak to us straight away – and we are not changing that. But this year we have added Twitter and now use SMS messaging and voicemail to contact our customers if there's a supply issue.

We value our customers' feedback and have been improving these channels so there are more opportunities to hear their views. Across the many surveys



“Across the many surveys we conduct, there has been an uplift in ratings for service levels, reputation and value for money, so we are clearly in a good direction of travel.”

we conduct, there has been an uplift in ratings for service levels, reputation and value for money, so we are clearly in a good direction of travel.

I was personally encouraged by the positive feedback from in-depth interviews that were conducted with a wide range of key stakeholders. The general feeling was that Bristol Water has been seen to have picked itself up from a difficult year and moved swiftly to deal with the challenges of our Price Review.

Looking forward, we are determined to develop and build on this year's performance and are working on initiatives to ensure we continue to deliver improved customer service alongside enhanced operational efficiency.

I have trust and confidence that we can do all of this and more. Bristol Water is built on strong foundations; we have a long history but are future-focused in our planning and delivery with high regard for corporate social responsibility; we are appreciated as a good local company that provides a personal service to our customers and strong knowledge of our supply network; and we have a highly skilled and professional workforce. And it's thanks to the continuing show of strength of our staff through a period of transition that we are able deliver a great service to our customers day after day.

Finally, in June our CEO, Luis Garcia, announced his intention to step down after 7 years with Bristol Water. I would like to thank him for his valuable contribution during a period of significant change, and wish him well for his future career. Luis will stay in post until a successor is appointed, the search for which is well underway.

Keith Ludeman
Chairman
14 July 2016

On average, we supplied 266 million litres per day (Ml/d) in 2015-16, to a total population of 1.2million household and non-household customers.



CEO statement



Bristol Water has faced many challenges in the past year; these have been industry wide as well as specifically our own and reflect the pressure to deliver more for less, which every customer-focused business is facing. Against this backdrop of challenge and change we have shown our continuing commitment to deliver a great service to our customers.

In the next few pages I report on the highlights of the financial year under review. A more comprehensive review of our key performance against the regulatory targets set by Ofwat is included in the Strategic Report.

Responsive to regulatory challenge

We are emerging from a year of tough financial reconciliation following our appeal against Ofwat’s draft determination. The principal area of difference was the gap in our planned expenditure (totex) and Ofwat’s view of efficient costs, which led to us facing significant challenge in our 2015-2020 regulatory period (AMP 6) Business Plan. In the months that followed we were unable to converge with Ofwat’s view of efficient totex and a significant gap remained, which led to our request for a referral to the Competition and Markets Authority (CMA).

The CMA’s Final Determination was delivered in October 2015 and led to a better outcome for the business but was significantly lower than our proposed business plan, with average household

bills reduced by 16% (compared with Ofwat’s 19% reduction and Bristol Water’s 5% reduction). The CMA determined that we should not proceed with some of the enhancement schemes that we proposed, but still allowed for an improvement in our supply network. For the allowed scope the CMA set the cost allowance 10% higher than Ofwat’s Final Determination. In addition, despite the CMA reflecting recent downward market movements, the redetermination produced a better result for financing costs, regulatory targets and financeability. In reaching its conclusions, the CMA adopted a different approach which resulted in a balanced outcome and valuable lessons for the industry moving forward.

In November 2015, Ofwat announced its decision to move Bristol Water from the “targeted” to the “prescribed” category on its company monitoring framework. This is a new framework that is used to challenge all companies to provide robust information for customers and stakeholders that they can have confidence in.

The move carries an increased level of prescription, where Ofwat prescribes the assurance requirements, there is an additional requirement to publish assurance plans in advance of reporting and another to incorporate independent external assurance for areas of reporting identified as being of most significance or are of greatest risk for customers. This relates specifically to assurance of forecast data in relation to ensuring

the company has adequate financial resources and facilities, and management resources to carry out its regulated activities.

We have reflected on the PR14 process and obtained feedback from our stakeholders. We have publicly stated our commitment to implement key recommendations for PR19, and are working with all our stakeholders to get the best outcome possible for our customers. In particular, we are working constructively with Ofwat at a time when they are keeping a close watch on our ability to meet the challenges the determination has set.

During the year we have responded quickly and met these challenges head on. We have implemented structural and operational changes, including a new Operating Model, which will help position the company to perform well during AMP6 and beyond, and under which we are already seeing benefits, as demonstrated by our good performance this year.

We understand why Ofwat has moved us to prescribed status. We are working on re-building relationships going forward and implementing a plan that will move us out of this category, working with all our stakeholders to achieve this as soon as possible.

Customer service achievements

Our customer service performance is measured through feedback and surveys,



280k

The Southern Resilience Scheme is our biggest infrastructure project, improving security of supply to over 280,000 customers.



5km

We have replaced nearly 5km of distribution mains that were in poor condition

and Ofwat uses the Service Incentive Mechanism (“SIM”) to benchmark customer service across the industry.

This year our SIM (Ofwat’s measurement of customer satisfaction) improved from 80/100 to 85.1/100. The improvements have been seen across all areas of the SIM, including the satisfaction survey and the complaint levels. We have listened to the complaints and causes for dissatisfaction and amended company policies to improve the service in the areas that matter the most for our customers.

We continue to put customers at the heart of our strategy and operations and regularly obtain customers’ views on what we do, how we perform and where we need to improve, and this improved score shows our efforts are making a measurable difference.

“We have listened to the complaints and causes for dissatisfaction and amended company policies to improve the service in the areas that matter the most for our customers.”

We are doing more than ever to help people who are struggling to pay their bills and continue to work closely with debt agencies and community support groups to promote our assist

schemes and social tariffs, increasing the number of beneficiaries by 27% to 9,532 households this last year. We have introduced a new tariff in April 2016 for customers in receipt of pension credit, giving them a 20% reduction off their water bill. We have been doing a lot of work around vulnerability, recognising this is a key contributor to ability to pay, and have become a dementia-friendly business, as well as introducing new Braille ID cards.

From listening to the views of our customers we have introduced more communication channels this year. We now use SMS messages to inform customers when they have unplanned disruption to their water supply. We also use twitter and the number of followers is increasing every day. In addition to this we have increased our customer feedback channels with a new customer feedback card and the introduction of a customer online panel called ‘Let us know’.

Investment in our water supply
AMP5 saw a period of major investment in our network - at £288.9 million this was one of the biggest capital programmes in Bristol Water’s history. This has delivered measurable improvements in water quality and security of supply for hundreds of thousands of customers.

In AMP6 (2015-2020) we will build on this. We have introduced efficiencies through applying our risk based process to AMP6 schemes. The Southern

Resilience Scheme is our biggest infrastructure project costing £27 million and improving security of supply to over 280,000 customers in our southern region. This new network will give us increased flexibility and will allow us to move water from our northern sources into our southern region in the event of a loss of supply, or water back up to Bristol if we lose our northern supply. It will also help us meet the increase in demand for water over the coming years.

In 2015/16 the design phase was completed and work will start on the 30KM pipe, an upgrade at Cheddar pumping station and a new service reservoir at Hutton in summer 2016, with a completion date of 2018.

During 2015/16 we also carried out preparatory work on a £3million project to renovate the Strategic Water Main from Victoria Pumping Station to Greenbank. This main services households and businesses across Cotham, St Paul’s, Lawrence Hill and Easton. Parts of our network are over 150 years old and customers in this area have reported a number of discoloured water incidents over the past few years, and this upgrade of the main is necessary to improve this.

Elsewhere we have replaced nearly 5km of distribution mains that were in poor condition and we continue to roll out this targeted programme of work to reduce bursts and improve water quality. We have also launched a five year lead replacement project to ensure that the

new lead standard is being met at infant and primary schools across our supply area.

Work on a new reservoir and an upgrade to the pumping station at Dundry was completed in 2015, with improved capacity to supply the local population long into the future. The new 1.1ML reservoir replaces a 1950's structure and the landmark telecommunication tower is also due to be replaced with a modern structure.

As well as these infrastructure projects, we have also been upgrading our treatment works with UV screening and this installation programme is now in its final stages at Barrow. We have also been working on optimisation projects at all our sites to help improve efficiency and save costs.

We also completed a three-year head office refurbishment, bringing an iconic 1960's building bang up to date in technology and energy management and moving all our office staff under one roof, which has resulted in a significant improvement in our ways of working together.

Performance

Our performance can be hugely influenced by the weather and the seasons and increasingly by extreme weather events that make things unpredictable and challenge our ability to have a consistent response.



99.94%

99.94% of legally required samples meet UK and European Union standards

This was a wet year; rainfall was 1025mm for the Mendip reservoir catchments, approximately 10% higher than the long term average for the area. Reservoir inflows dropped off at the end of the recharge period around March 2015, and we saw a fall in reservoir levels along their control curve into the summer. However, a relatively wet summer followed which saw an unusual rise in reservoir levels from August onwards. As a result, total reservoir volume was maintained at a higher level during the summer and full recharge was achieved on target at the end of January 2016.

As with 2014-15, the high levels of our reservoir storage meant that we were able to maximise the use of water from Mendip reservoirs throughout the year. This meant that we did not need to use water from the River Severn to support our southern supply zones, which reduced our pumping and treatment costs.

On average, we supplied 266 million litres per day (ML/d) in 2015-16, to a total population of 1.2million household and non-household customers. The total water into supply was 1 ML/d less than the previous year (267 ML/d 2014-15). This fall was due to a 1 ML/d reduction in leakage to 44 ML/d, which is well below our AMP6 target of 48 ML/d.

For the 19th year running, we have beaten our leakage targets by continuing with our proactive approach using a range of techniques and resources. With over 6,600km of mains to maintain, we continually review the leakage reduction activity in light of the costs and benefits of such work. We believe we are at the forefront of innovation in responsive district metering that enables us to detect leaks and use the distribution network more efficiently.

However, we want to improve further and by 2020 aim to reduce leakage to 16% of water produced (compared to over 20% in 2009/10). By 2040, we have set a target of leakage reduction so that only 10% of the volume of water put into the distribution system is lost through leakage.

The quality of drinking water we supply is already very high with 99.94% of legally required samples meeting UK and European Union standards, slightly up from last year. Another positive trend is the reduction in the number of negative water quality contacts we have received over the last few years, with 2,329 in 2015 falling below our target of 2,422. This is largely attributable to our AMP5 trunk mains relining/replacement programme and the associated systematic flushing of the distribution mains supplied from these trunk mains. Consequently, we are getting a cleaner network and a much reduced risk of discoloured water contacts when there is any disturbance to flows caused by burst mains.

The improvements in our SIM performance has been seen across all areas of the SIM. But this year we are disappointed to miss our target of 'unplanned customer minutes lost' per property, coming in at 15.4 minutes when our target was 13.4 minutes. This figure is largely due to burst mains in Keynsham, Bedminster Down, Evercreech, Cotham and Stapleton, which unfortunately affected several thousand customers. This means that five bursts represent 75% of the total per customer minutes lost during the year. We provided an alternative water supply in response to the Keynsham and Bedminster bursts and had very good feedback about our efforts looking after vulnerable and elderly customers and the level of service we provided at our water hubs. We are using the lessons learnt to improve our plans to manage them and have a better response to our customers and the company is fully committed to meet this target in the remaining years of the AMP.

Competition

From April 2017 all non household customers in England will be able to choose who supplies their water and waste water services. In the new Open Water market, businesses will buy from retailers, who in turn will buy services from the existing water and sewerage companies who will act as wholesalers.

Work on a new 1.1 million litre reservoir and an upgrade to the pumping station at Dundry was completed in 2015.



The launch of a new water fountain in Millennium Square for Bristol 2015 Green Capital.



FROM LEFT: PATRIC BULMER, BRISTOL WATER'S HEAD OF ENVIRONMENT; MAYOR GEORGE FERGUSON; ALAN COOKE, BRISTOL WATER'S WATER EFFICIENCY MANAGER; LUIS GARCIA, BRISTOL WATER CEO; AND ARTIST JODI THOMAS (DIGITAL FIRE).

The reforms to the market are being governed nationally through the Open Water programme, which must deliver the requirements needed for the market to successfully open in April 2017, including market design, codes, central systems, and contracts to enable the full non-household business retail market to function.

This work is currently underway and includes developing the market rules, identifying the data necessary for the market to function and, procuring and building the central IT systems required for the market to work. All of this work has involved significant cooperation and engagement between Open Water, the incumbent companies and potential new entrants. Bristol Water has been, and will continue to be, heavily engaged in the Open Water Programme and its development to ensure we are ready for market opening.

Over the past year, we have made strong progress on various local aspects of the Open Water programme. With our programme governance in place, we have made positive progress towards market opening by preparing our processes, systems and people ahead of some of the key milestones that lie ahead.

As our preparation for market opening continues, we have established an external Assurance Partner to work with the programme and ensure that Bristol Water are fully equipped for the challenges that the new market will create. Assurance on our local activity is being done in line with assurance activities with all English water companies, MOSL, Ofwat and Defra to ensure all parties have the correct readiness condition ahead of full market opening.

Water2business is a new non-household retail function owned by a parent company of Bristol Water plc. This structure has been put in place to ensure full segregation of the wholesale business from retail business for non-household customers when the market opens. water2business has been following similar people, system,

process preparation activities and is also engaged with similar assurance activity to our wholesale business. Both the wholesale programme team and the retail programme team are working well together to ensure future challenges to get into the full market are managed effectively. Bristol Water plc will be exiting the retail non-household market, and our retail non-household customers will be transferred to water2business.

Bristol Water plc will continue to operate both wholesale and retail for household customers.

As a key strategic programme, we will continue to work closely with the central programme, internal business teams and key stakeholders to ensure we are in the strongest position possible ahead of full market opening.

Being a responsible business

From an environmental perspective, we have set ourselves long-term targets for environmental performance and all our reservoirs remain at the highest assessment levels for Sites of Special Scientific Interest.

We have launched a pioneering initiative called the Biodiversity Index which enables us to measure the impact of our projects on natural habitats - and helps demonstrate a net gain to wildlife and biodiversity following these projects. In 2015, environmental focus sharpened even more as we embraced Bristol's status of European Green Capital 2015 and among our many projects to support this initiative we developed the world's first live laboratory at one of UWE's student villages, using the students as subjects to test how they use water and to assess the impact of water saving ideas.

Combine this with our continued efforts in the community promoting water efficiency and we can all enjoy the benefits of changing our behaviour and attitude about water. By giving out 30,000 free water saving devices we have potentially saved approximately

half a million litres of water each day - this saves money and energy and ultimately reduces our carbon footprint.

Financial performance

Revenues for this first year of AMP6 were as set by Ofwat in their final determination in December 2014, and resulted in deterioration in financial performance. Turnover decreased by £21.9m to £110.9m and profit before tax decreased by £9.4m to £27.8m. These results reflect the lower tariffs, and lower than expected consumption, offset by lower operating costs. Lower operating costs were achieved through the on-going efficiency programme, the implementation of cost saving measures and the closure of the defined benefit pension schemes to future accrual changing the estimate of past service cost.

Revenues for the remainder of AMP6 have been set by the CMA in their re-determination following our appeal.

A comprehensive analysis of our financial results can be found in the Strategic Report on page 14. During the year the new business operating model has been substantially implemented. This major restructure results in a 10% reduction in our workforce, and is now nearly complete. It will put us in better shape for the future challenges in this sector, with retail separation for non-household customers, and other regulatory initiatives.

This is Bristol Water's 170th year and this longevity gives us great strength. We are rooted in our community and are respected locally as a good employer and dedicated service provider. We owe huge thanks to our staff, past and present, for enabling us to meet the challenges and changes that we have faced in 2015, while continuing to deliver good performance and outstanding customer service.

Luis García
Chief Executive Officer
14 July 2016

Strategic report

The directors present their Strategic Report on the company for the year ended 31 March 2016.

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TOM SMITH, NETWORK FLUSHING INSPECTOR AND JAMES LANG, STRATEGIC OPERATIONS INSPECTOR.

Our business

This year Bristol Water is 170 years old and while the world has changed beyond recognition in that time, our business ethos remains the same: customers are at the heart of everything we do. We understand how important a reliable and clean water supply is to everyday life; we are acutely aware of the need to make the right decisions to provide an affordable, high-quality service into the future. After all, we are customers too.

Through our passion to deliver a great service, we place the customer at the centre of our decision-making. We listen to their views and adapt our approach with the intention to meet their ever-increasing expectations.

We supply water to approximately 1.2 million people across an area of almost 2,400 square kilometres, from Tetbury in the north to Street in the south and from Weston-super-Mare in the west to Frome in the east. Our operations include the abstraction, storage, treatment and distribution of water to homes, businesses and other premises.

We are one of 17 companies in the UK who distribute water and Bristol is one of seven that focuses exclusively on water, not wastewater. In our supply area, wastewater services are provided by Wessex Water and to make it easier for our customers and provide an efficient service, we set up Bristol Wessex Billing Services Limited (BWBSL) together so we only send one bill.

Our business model and strategy


According to the latest projections from the Office of National Statistics (ONS), the population we supply will increase from 1.2 million to nearly 1.5 million by 2040. Over the next 10 years, the ONS have calculated the population will increase by 7.9% in our supply area. This is comparable to the much publicised high-growth rates in the South East of England of

7.8% over the same period and is 15% higher than the regional average for the South West overall. The rate of house building is also expected to increase to accommodate the rising population.

In 2015/16 we supplied water to an additional 6,000 new households and 200 businesses. We are committed to fulfilling the growing demand and delivering a reliable supply and high level of service that our customers have told us they want. We aim to outperform our regulatory commitments through a business model that helps generate significant efficiencies. Our vision “to meet customers’ expectations by providing an outstanding water service in a sustainable and affordable way” means that we have to:

- Provide the service our customers require
- Work to protect and enhance our environment
- Actively support our local communities
- Support our employees to achieve their full potential in a safe workplace
- Deliver good value to our other stakeholders while managing our supply chain fairly
- Assess long-term demand for water and determine the nature and phasing of investments in our infrastructure to meet this
- Provide sustainable and reasonable return to investors while retaining a robust capital structure





6,000

In 2015/16 we supplied water to an additional 6,000 new households



7.9%

Expected increase in population in our supply area by 2026

- To have strong relationships with all regulatory bodies

Regulatory framework

Water companies in England and Wales must comply with the economic and environmental regulatory frameworks. Ofwat is the water sector’s economic regulator and competition authority. Its main duties in respect of water supply are to:

- Protect the interests of consumers, wherever appropriate, by promoting effective competition
- Secure that the functions of each water company are properly carried out and that they are able to finance their functions, in particular by securing reasonable returns on their capital
- Secure that companies with water supply licences (those selling water to large business customers) properly carry out their functions
- Secure the long-term resilience of water supply systems and that water companies take steps to enable them, in the long term, to meet the need for water supply services
- Monitor the quality of customer service and determine the maximum price water companies can charge to our customers

Other regulatory bodies include:

- The Drinking Water Inspectorate (DWI), which is responsible for assessing the quality of drinking water in England and Wales, taking enforcement action if standards are not being met and other appropriate

action if water is unfit for human consumption

- The Environment Agency (EA), which regulates licences for water abstraction, and preserves and improves the quality of rivers, estuaries, coastal waters and groundwater, through pollution control powers and the regulation of discharge contents
- The Consumer Council for Water (CCWater), an independent organisation whose role is to provide information of use to consumers and to promote the interest of all water consumers
- Natural England, which is the Government’s adviser for the natural environment in England, helping to protect England’s nature and landscapes for people to enjoy and for the services they provide.

Price review process (2015-20)

This regulatory period (2015-20) is known as Asset Management Plan Period 6 (“AMP6”) and the price that water companies can charge their customers is set through Ofwat’s price review process (known as PR14). Bristol Water asked Ofwat to refer our Price Review to the Competition and Markets Authority and a new Final Determination was delivered in October 2015. This set prices significantly lower for this AMP than our proposed business plan, with average household bills reduced by 16%.

Retail competition will be introduced for all non-household customers in April

2017 To support the expansion of retail competition, Ofwat set separate price controls for wholesale services, with different retail controls for household and non-household customers. The non-household retail price controls are designed to protect customers for the two years ahead of market opening and to provide backstop protection and a comparison point for customers once the market is open. A price review process called PR16 will formalise the opening of the Retail Non-household market.

“Our vision is ‘to meet customers’ expectations by providing an outstanding water service in a sustainable and affordable way’.”

Bristol Water’s aims and outcomes

- 

Highly reliable

 - Reliable supply
 - Resilient supply
 - Sufficient supply
- 

Excellent quality

 - Safe drinking water
 - Water is good to drink
- 

Environmentally sustainable

 - Efficient use of resources by company
 - Efficient use of water by customers
 - Sustainable environmental impact
- 

Responsive to Customers

 - Affordable bills
 - Satisfied customers
 - Easy to contact
 - Bills are accurate and easy to understand
- 

Best people right culture

 - Safe working practices
 - Skilled workforce
 - Motivated workforce
- 

Sustainable business

 - Efficient expenditure
 - Investor confidence
 - Fair returns for investors
 - Highly reputable

Planning for the next AMP Period 7 (PR19) is now underway. Our Challenge Panel has a new Chair, Peaches Golding OBE, who brings a wealth of expertise and experience to her role. Customer Challenge Groups/Panels hold water companies to account on current performance and are used to influence business planning and provide on-going assurance to the industry regulator, Ofwat. The independent Chair holds a unique position of trust between the people and businesses supplied by Bristol Water and has a remit to constructively challenge and influence the company on behalf of customers, reflecting their views and interests.

Long-term strategy
Our 25-year strategy ‘Water in the Future’ sets out our long-term company vision. To help deliver this vision we developed six strategic aims, which were tested through customer research to identify key areas of performance called ‘Outcomes’, and measures of success were developed.

In 2014 we published our Water Resources Management Plan (WRMP) 2014-2040, which sets out how we intend to meet customers’ water needs over the next 25 years. Over this period we face a number of pressures from population growth and climate change but we are fully committed to fulfilling our customers’ growing water demands.

The population we serve is expected to increase by approximately 25% and the number of properties by approximately 30%, the latter figure due largely to an increase in single occupancy households. It is anticipated that there will also be growth in the number of businesses we serve to support this growing population. This all adds to the demand for water and increases the risk of shortages.

Climate change is expected to bring greater variability in the weather with droughts and wet weather becoming more frequent and severe. If drier summers become more common, as predicted, then water availability will be reduced. Conversely there will also be an increased risk of flooding as the winters become wetter, which may in turn threaten the quality of our water. Our WRMP sets how we propose to manage these challenges while continuing to provide affordable, secure and safe water supplies, and work has already started on the new plan as we need to be responsive to all these factors.

Bristol Water has one of the lowest leakage levels in the industry in the UK, performing within the top four of the 18 companies in England and Wales using the KPI of total leakage in litres/property/day. However, as set out in our Water Resources Management Plan, we want to improve further and by 2020 aim to reduce leakage to 16% of water produced (compared to over 20% in 2009/10).



Retail competition
From April 2017 all non-household customers in England will be able to choose who supplies their water and wastewater services. In the new Open Water market, businesses will buy from retailers, who in turn will buy services from the existing water companies who will act as wholesalers.

The Water Act 2014 established the framework to create the Open Water market and these reforms will extend competition by increasing choice for existing customers and making the market more attractive to new entrants. Ofwat believes that more competition in the industry will improve levels of service, ensure more tailored services and prices, and drive sustainable approaches to managing water. Competition is also being seen as a major driver of innovation in the industry.

The reforms to the market are being governed nationally through the Open Water programme, which must deliver the requirements needed for the market to successfully open in April 2017, including market design, codes, central systems and contracts to enable the full non-domestic business retail market to function.

This work is currently underway and includes developing the market rules, identifying the data necessary for the market to function, and procuring and building the central IT systems required for the market to work. All of this work has involved significant cooperation and engagement between Open Water, the incumbent companies and potential new entrants. Bristol Water has been, and will continue to be, heavily engaged in the Open Water Programme and its development to ensure we are ready for market opening. At the time of writing this report, with 10 months before market opening, we have met all our business readiness and assurance milestones and launched our internal engagement project titled Ready for Retail.

In spring 2000, Bristol Water and Wessex Water, as two of the major players in the water supply market, came together to find a more efficient way to service their customer base. For the first time business customers were given access to account managers, specialist billing teams and a range of bespoke services to compliment what were already exceptional operational standards.

The overriding objective was to make the water element of any business as simple and as cost effective as possible. Our efforts over the years have been rewarded with outstanding ratings from Ofwat.

In 2015 we separated this team to create a dedicated business services division called water2business with the same dedicated account managers, specialist billing teams and range of customised services to compliment what were already exceptional operational standards.

With the opening of the non-household market in April 2017, water2business as a national retailer has the opportunity to take its high levels of service to a national audience.

Existing customers will continue to benefit from the individual knowledge of the two parents in the joint venture and the relationship they already have with our water2business team. They will also have the assurance that competition will continue to incentivise us to keep prices down, add value to the service and maintain the highest standards of service.

The Government are expecting Ofwat to introduce competition to the domestic market in future, but for now household customers are not affected.



“Bristol Water has one of the lowest leakage levels in the industry in the UK, performing within the top four of the 18 companies in England and Wales.”

Current performance

We set tough targets in order to improve our service and continually measure our performance. We have met some of these tough targets and overall the standards we have achieved this year have been high, as reflected in the most important of all indicators – customer satisfaction and value for money.

The following pages describe these measures and our performance against targets.

1 Customers whose water bill represents >2% of their disposable income, based on population analysis of our billing database.

2 % billed households on our Assist or WaterSure+ tariffs. From April 2016 we have also introduced a new social tariff for customers who receive Pension Credits

3 Our SIM target in the Ofwat determination for AMP6 is top 5 in the industry, and 85 is our current estimate of the score required to achieve a top 5 ranking.

4 Based upon the results of our annual survey of 500 household customers selected at random from the total customer base, who were asked how they rate our service.

5 Based upon the results of our monthly SIM surveys of a sample of approx. 200 customers who have contacted us in the year, who were asked to rate us in terms of value for money

6 Based upon a subset of the unwanted billing

contacts reported for SIM purposes by our billing company BWBSL.

7 This measure is intended to measure the impact of the Southern Resilience Scheme, which is due for completion in 2018. The populations reported are consistent with those at risk at the time of the PR14 price review, and do not reflect growth in population in affected areas

8 We believe the lower domestic meter penetration is attributable to a change in metering policy and reduction in meter optants due to reduced bills.

9 The definition of deteriorating is as set out in PR14 FD. Deteriorating raw water can be caused by nutrients and sediment entering water sources. We are working with a wide range of stakeholders to improve the quality of raw water going into our treatment processes.

10 The reason for the change from the original BI figure in 2014/15 is because we purchased a new site to build our new reservoir at Dundry.







The original site was then given a baseline score and was added to BI in 2014/15. During the project work, improvements we had made at the site were recorded in the 2015/16 BI. Recording both the original site score and the new site score means we are able to prove an improvement was actually made to the BI.

11 A reportable HSE accident indicates staff have taken more than seven days sickness absence or sustained a broken bone due to a work related injury.

12 Due every 3 years, next one 2016

13 RORE calculation is applicable for AMP6, therefore there is not a 2014/15 figure available.

14 Based upon the results of our annual survey of 500 household customers selected at random from the total customer base, who were asked how they rate our service. This is based on two satisfaction levels of ‘very good’ (23%) and ‘good’ (52%).

Aim	Outcome	Performance Measure/KPI	Units	Annual Target (Performance Commitment)	2015/16	2014/15
 Responsive to customers	Affordable bills	Percentage customers in water poverty ¹	%	2.0	0.4	2.5
		Percentage of customers on social tariffs ²	%	1.6	1.7	1.5
	Satisfied customers	Ofwat measurement of customer service (SIM)	Score/100	85 ³	85.1	80
		General satisfaction survey ⁴	%	93	83	69
		Value for money rating ⁵	%	71	78	73.0
	Easy to contact	Ease of contact from surveys ⁵	%	96.3	93.1	95.2
	Bills are accurate and easy to understand	Negative billing contacts ⁶	No.	2,480	2,301	2,612
 Excellent quality	Safe drinking water	DWI standards Mean Zonal Compliance	%	99.96	99.94	99.92
	Water is good to drink	Negative water quality contacts	No.	2,422	2,329	2,576
 Highly reliable	Reliable supply	Unplanned customer minutes lost	Minutes per customer	13.4	15.49	152.4
		Asset reliability (below ground assets)	Improving/stable/marginal/deteriorating	Stable	Stable	Stable
		Asset reliability (above ground assets)	Improving/stable/marginal/deteriorating	Stable	Stable	Stable
	Resilient supply	Population at risk from asset failure due to an extreme event ⁷	Population	288,589	288,589	288,589
	Sufficient supply	Security of supply index	No.	100	100	100
		Hosepipe ban frequency	Return period (1 in 'X' years)	15	15	15
 Environmentally sustainable	Efficient use of resources by the Company	Leakage	ML/day	48.0	44.2	45.1
		Pumping efficiency	%	55	56.4	55.6
	Efficient use of water by customers	Per capita consumption	litre/head/day	145.4	141.1	143.0
		Domestic meter penetration ⁸	%	50.4	47.3	45.8
	Sustainable environmental impact	Total carbon emissions	Tonnes CO2 Kg/person	32	35.3	38.5
		Raw water quality of sources ⁹	Improving/stable/marginal/deteriorating	Deteriorating		
		Biodiversity Index ¹⁰	Improving/stable/marginal/deteriorating	Improving	17684.59	17613.21
		Environmental Discharge Compliance	%	100	96.1	99
 Best people, right culture	Safe working practices	No. of accidents reportable to Health and Safety Executive ("HSE") ¹¹	No.	Nil	1	1
	Skilled and motivated workforce	Staff satisfaction survey ¹²	% of respondents who like their job	Maintain high level [90%]	No survey	No survey
 Sustainable business	Investor confidence	Credit rating	Moody's rating	Baa1	Baa1	Baa1 (negative watch)
	Fair return to investors	Return on Regulated Equity ¹³	%	5.8	4.15	N/A
		Customer survey ¹⁴	%	83	75	67
	Highly reputable	Stakeholder survey	%	53	55	55

Responsive to customers

We set out to provide outstanding water services in a sustainable and affordable way to meet and exceed our customers’ expectations.



Affordable bills

We have a number of schemes in place to make sure we help customers who find it hard to pay their water charges. We monitor a percentage of our household customers we classify as experiencing ‘water poverty’ (those who spend more than 2% of their net income on paying their water charges) and offer advice, assistance schemes and capped tariffs, known as ‘social tariffs’.

The number of customers receiving assistance through these measures has increased by 3.4% since last year. At the moment, 10,920 households are currently benefitting from our ‘Restart’ and ‘Restart Plus’ schemes and ‘Assist’ tariff, which help customers who are in financial difficulty get back on track with their water bill.



83%

In March 2016 83% of respondents rated our service as excellent, very good or good

1,831 households are on our WaterSure Plus metered tariff, which is for customers in receipt of certain benefits and are defined by the government as ‘vulnerable’, either because they have a medical condition or a large family.

We are amongst the first in the industry to introduce a Pension Credit scheme that gives a 20 per cent discount on water bills to Bristol Water customers who live in a household where all members over the age of 18 are in receipt of Pension Credit.

Elderly and disabled customers, those undergoing home dialysis or have priority needs can also register for Customer Care Plus which gives access to a range of special services free of charge.

We know that water debt is seldom isolated and we work to provide independent debt advice, working closely with the agencies that provide these services. In 2015/16 we donated £50,000 to debt advice agencies across our supply area to support them in providing free advice to our customers.

Satisfied customers

We use the following five indicators to assess whether our customers are satisfied with the service we provide:

- Ofwat’s Service Incentive Mechanism (SIM), measuring the household customer experience
- Customers’ assessment of whether we provide value for money, measured

- through our monthly consumer experience surveys
- Customers’ assessment of how easy we are to contact, measured through our monthly consumer experience surveys
 - The volume of unwanted billing contacts we receive
 - Customer satisfaction, measured through our annual tracking survey of household consumers

Ofwat uses the SIM to compare the performance of the water industry in England and Wales in respect of the service it provides to customers. The SIM comprises a composite quantitative measure relating to the number of calls received because something has gone wrong, the number of written complaints and escalated written complaints, and a qualitative measure in the form of a customer satisfaction survey.

Our SIM score in 2015/16 is 85.1; our industry ranking will be known later in July but the indicators based on the survey ranking are that we will improve from last year’s position. This year we have introduced the use of sending SMS messages to customers to help inform them of unplanned bursts and alternative water supply. This has resulted in a reduction of unwanted calls and in particular a reduction in contacts regarding discolouration.



£50,000

In 2015/16 we donated £50,000 to debt advice agencies across our supply area to support them in providing free advice to our customers.

In addition, we survey customers every month using the same independent research agency that Ofwat uses to get feedback and to obtain a consumer rating of the value for money we provide. In 2015/16, 77.8% of consumers in these surveys rated our service as providing good value for money – up from 73% last year.

We have continued working with a second independent consumer research agency on our annual tracking survey of 1,000 household consumers, selected at random from across our supply region, to find out how they rate our service. In March 2016 83% of respondents rated our service as excellent, very good or good, compared to 69% the year before. The increase and high level in satisfaction is encouraging – however, it is still less than our target of 93% and we are tackling this by improving and increasing feedback opportunities.

In 2015/16, 77.8% of consumers in these surveys rated our service as providing good value for money, a 4.8% increase on last year.

In 2015, we reviewed our customer feedback channels by redesigning our feedback cards and by establishing a customer online panel called ‘Let us know’ with over 2,000 members. The first survey had a response rate of over 70%. Our intention is that this feedback will help us gather better insight to understand how we can improve

customer satisfaction further.

We intend to supplement this with the introduction of real time customer feedback and bespoke customer satisfaction surveys for our Developers, Self-Lay organisations and our recreational customers.

Easy to contact

While we understand the importance of providing a range of channels through which customers can contact us, telephone is still the preferred and primary method, so it is important that we monitor the satisfaction of this service.

In 2015/16, 93.1% of consumers surveyed considered that it was easy to contact us by phone – a fall of 2.1% from the previous year. The dissatisfaction is often caused by customers not being clear on the number they need to call for their enquiry. We are reviewing our literature and website to help make this easier for customers to understand.

In 2015/16, we introduced more proactive communications with the use of Twitter and text messaging. In 2016/17, we plan to extend this to use text messaging for reminders of appointments and also the introduction of web chat. We will continue to seek our customer’s views on the channels we are using in order to meet their needs for a responsive service.

Bills are accurate and easy to understand

Our customers want bills that are accurate, clearly laid out and easy to understand so we monitor this by measuring the number of ‘unwanted’ billing contacts we receive. In 2015/16, this was 2,301, a reduction of 311 from 2014/15. Unwanted is the term used by Ofwat in its quantitative SIM measures for calls which the customer would prefer not to make, in the sense that they are dissatisfied because they are experiencing a problem or concern, are making a repeat or chase call, or want to complain.



Excellent quality

Our water is tested against some of the most rigorous standards in the world and consistently achieves exceptionally high compliance.

Safe drinking water

Topmost in our aims is to supply our customers with clear water and complying with stringent regulatory standards. We do this through our Drinking Water Safety Plan (DWSP) approach, which helps us to reduce and manage any risks to water quality.

Our Water Quality team collects samples 365 days a year from across our 2,400 square kilometre supply zone. The sampling schedule is aligned to a sophisticated computer-controlled programme so that water quality is checked right from source to customers' taps. This is evidenced by our water quality results that are measured by DWI Standards: Mean Zonal Compliance (MZC).

The standard on the level of lead in the water supply was tightened in December 2013 from 25 to 10 micrograms per litre. The table below demonstrates the impact of this on compliance in AMP5.

During 2015 our random compliance sampling at customers' properties identified two nickel failures (due to nickel leaching from chrome plating on customer taps, not our own supply pipe) and three taste and odour failures associated with other internal plumbing deficiencies. Although these failures were solely attributable to customers' 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.

Calendar year	Mean Zonal Compliance (Lead standard 25 µg/l)	Mean Zonal Compliance (Lead standard 10 µg/l)
2010	99.96%	99.94%
2011	99.96%	99.91%
2012	99.99%	99.97%
2013	99.97%	99.95%
2014	99.95%	99.92%
2015	99.95%	99.94%
Average	99.96%	99.94%



Water is good to drink

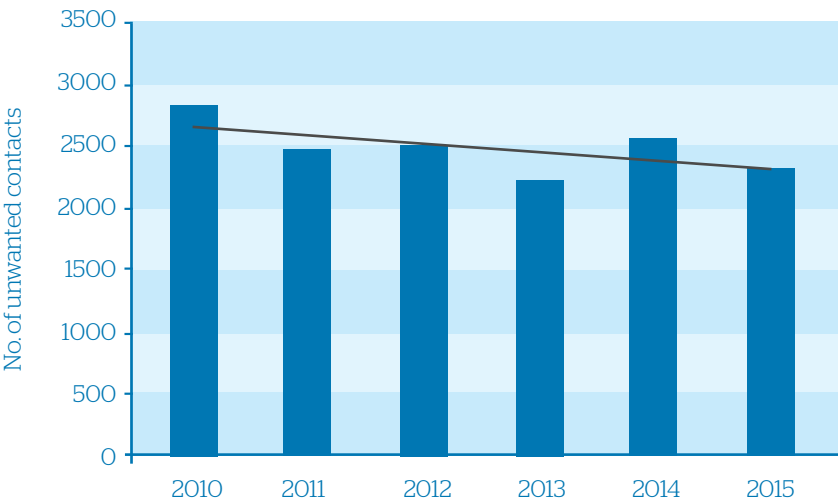
It's vitally important that our water not only meets stringent standards but is also good to drink. We measure our performance by the number of negative contacts about the quality of water our customer services department receives.

Our Negative Water Quality Contacts (NWQC) measure relates to the number of customer contacts we receive each calendar year about taste, odour and appearance. It is consistent with our reporting to the DWI in that it excludes contacts associated with reportable events.

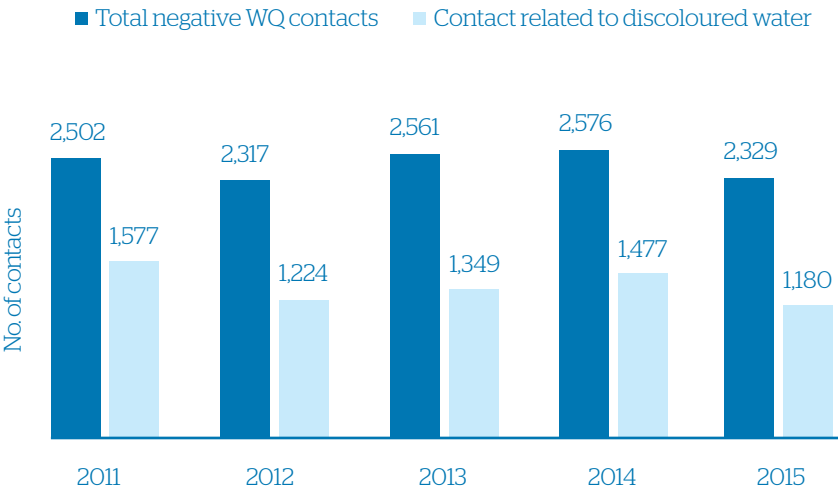
We received 2,329 NWQCs during 2015, which is better than our ODI target of 2,422.

As shown in the chart above, there has been a general reduction in the number of contacts we have received over the last few years. We have now started to see the benefit of our AMP5 trunk mains relining/replacement programme and the associated systematic flushing of the distribution mains supplied from these trunk mains. The renovation of the trunk mains reduced the amount of corrosion debris seeding our network and the associated systematic flushing programme has removed historic corrosion debris. Consequently, we are getting a cleaner network and a much-reduced risk of discoloured water contacts when there is any disturbance to flows caused by burst mains.

Negative water quality contacts



Water Quality Customer contact



Highly reliable

We must offer a reliable and resilient service to our customers who depend on us to supply water without restriction or interruption.



Reliable supply

Our performance for reliable supply is assessed on the number of unplanned minutes without supply each property experiences, and on our capacity to avoid a service failure of our assets, both above ground (non-infrastructure assets) and below ground (infrastructure assets).

This is one of our key targets because the impact on supply interruptions is most keenly felt by our customers. Despite the fact that we receive high levels of satisfaction and praise from customers in how we manage bursts, we are highly incentivised to reduce the time people are without water and are focusing on initiatives to improve this score.

For 2015/16 we recorded a total of 15.5 minutes lost per property as a result of 430 bursts. Although this is above our target of 13.2 minutes per property, 75% of the minutes lost relate to five incidents that took more than 12 hours for supplies to be fully restored. However, at 756 the actual number of bursts is 23% less than forecast and only 60% of these have resulted in no water events, which shows we are managing a large proportion of bursts through live repairs and rezoning.

We have continued to deliver performance, maintaining our asset health measure of asset reliability as stable for both above and below ground asset groups.

Resilient supply

A resilient supply means that we are able

to cope with extreme or unusual events, and this is measured by the number of people at risk from the failure of a single source asset (in supply areas of more than 25,000 consumers).

Improving resilience was one of the key outputs for the capital investment programme of AMP5 and continues to be a key output in AMP6. As part of our AMP6 programme, we are further reducing the number of customers at risk from 288,589 to 9,063, by undertaking a major scheme to construct 30 kilometres of mainly 700-millimetre diameter new mains to reinforce and support our southern supply area. The scheme has been designed and planning is in hand, with construction scheduled to commence in September 2016.

Sufficient supply

One of our customers' most important requirements is an unrestricted water supply. Our performance of this is measured by supply restrictions during periods of water shortages, and Ofwat's Security of Supply Index (SOSI). SOSI is the ratio of water available, plus regulatory headroom, to the forecasted dry weather water demand for the outturn year. If a score of less than 100% is calculated, this would indicate that there could have been a higher risk of water use restrictions for our customers that year. We are pleased that for 2015-16 our SOSI value was 100%, indicating sufficient supply with no restrictions. It has been 25 years since we have had a hose pipe ban.

756

Burst mains - 23% less than forecast and only 60% of these have resulted in no water events

Purton Treatment Works has the capacity to purify 165 million litres of canal water per day to supply the Bristol area.



PHIL BRYANT: ENGINEERING TECHNICIAN.

Environmentally sustainable

We take environmental responsibility seriously and make efficient use of our resources to both assist customers in becoming water efficient and minimise the environmental impact of our business operations.

EFFICIENT USE OF RESOURCES BY THE COMPANY

Leakage

There are multiple benefits to managing leakage effectively including reducing the risk of having to impose water restrictions if our area experiences sustained periods of dry weather, reducing our impact on the environment by reducing the amount of water we need to abstract, and reducing disruption to customers when making repairs. For AMP6, we have set challenging leakage targets at a level where the overall value of the water lost is balanced against the costs of increased leakage control activity.

Our continued outperformance against these challenging targets is driven by our strong commitment to drive leakage down, and we go into this in greater detail in our report ‘war on waste’ on page 32. The combination of targeted investment in our network, improved monitoring and control, and our proactive approach to leakage management and leakage reduction initiatives, such as pressure management, continues to see us actively working to reduce leakage levels further.

Pumping efficiency

In our ongoing efforts to reduce our energy consumption, reduce costs and improve efficiency our average pump

group overall efficiency for units over 40kW rating has improved to 56.4% due to the installation and use of new and more efficient pumping machines. In addition, operational pumping combinations and pump speeds for the large raw water pumping stations are now selected with regard to optimum duty point whenever possible, improving the overall efficiency of our pumping system

EFFICIENT USE OF RESOURCES BY CUSTOMERS

Metering

We encourage our customers to be more efficient in the way they use water by increasing the number of customers who are billed based on their actual consumption of water. We measure this by meter penetration expressed as a percentage of total number of customers. We also provide water-saving fittings and advice on reducing water consumption to help our customers save water.

Household meter penetration for 2015/16 is 47.3%, up from 45.8% in 2014/15. However, this is lower than our target of 50.4%. We have seen a reduction of approximately 40% in meter optants, where customers request the installation of meters, against the forecast thought to be due to the reduction in bills in 2015. We are

continuing with our selective household and non-household metering programmes and will continue to monitor our meter penetration against our AMP6 targets.

We continued to see lower than expected numbers of properties eligible for metering on the change of occupier (large garden) metering programme, but with an increase in the number of surveyors, we installed almost 500 more meters requested by the customers than forecast for 2014/15. In our AMP6 Business Plan we propose to introduce an extended programme of change of occupier metering, with the aim to increase household meter penetration to 66% by 2020 as this is proven to reduce household water consumption.

We have also analysed the effective age at which to replace meters and have found meters are lasting longer than originally planned. Therefore, we are now replacing meters when they are 18 years old having previously replaced at 13 years old. This reflects our new approach of proactively monitoring failure rates to ensure we take optimum decisions.

Average water consumption per customer per day (per capita consumption “PCC”) for 2015/16 was 141 litres per person per day which is four litres below the target figure of 145 litres set at PR14.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Leakage – million litres of water per day (Ml/d)	50	43	42	44	45	45
Ofwat target	52	51	50	49	49	47



“We encourage our customers to be more efficient in the way they use water by increasing the number of customers who are billed based on their actual consumption of water.”

SUSTAINABLE ENVIRONMENTAL IMPACT

Total carbon emissions

One key measure of our environmental impact is our carbon emissions. We use almost 80,000,000 kilowatt hours of electrical energy to treat and distribute water and this accounts for almost 90% of our total carbon footprint. We can play our part in reducing the carbon emissions associated with energy use by improved pumping efficiency; reducing leakage and helping our customers use water more efficiently. This, together with improved energy efficiency of our buildings and vehicle fleet, and development of renewable energy sources, enables us to manage those aspects of our carbon footprint that we can control.

Our carbon footprint has reduced slightly from last year’s figure because the carbon footprint of each kWh of electrical energy we purchase (known as the “grid average”) has reduced from the previous year. However, looking at the longer-term trend of the grid average figure, we do not anticipate that this is likely to follow the Government projections given in 2014 and we will recalculate our projected future carbon footprint accordingly. We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint.

Electrical energy consumption marginally reduced by 1%, bringing

the total down to to 78,243MWh in 2015/16 compared with 79,036MWh in 2014/15. The reduction reflects power saving initiatives across the company, particularly at Purton our largest treatment works, and water pumping at our key raw water reservoirs.

Our ongoing energy efficiency programme continues to work on improving management of water sources and pumping. Water Efficiency measures have saved 115,000 kg CO², due to our promotional activities to help customers save water, which helped our customers to reduce their water by a total of over two hundred million litres during the year. Total annual quantity of emissions (in tonnes of CO² equivalent) resulting from the combustion of fuel and the operation of any facility where we burn diesel or heating oil (direct scope 1 emissions) was 1,554 tonnes.

We use the Standard Water UK calculation methodology to calculate our carbon emissions. Figures for the current and previous years are:

2010/11	435.0 kg/Ml
2011/12	422.5 kg/Ml
2012/13	384.3 kg/Ml
2013/14	384.1 kg/Ml
2014/15	398.3 kg/Ml
2015/16	375.3kg/Ml

Biodiversity in action at the National Hedgelaying Championships at Chew Valley Lake.



Renewable energy: Our Purton solar photovoltaic system has continued its successful operation and in the last twelve months has produced 1,111,798 kWh of sustainable electricity, used at our treatment works at Purton. This has resulted in a carbon saving of over half a million kilogrammes of CO₂ in 2015/2016.

Raw Water Quality of Sources

The quality of our water sources, particularly in the Mendip lakes, can be impacted by deterioration due to nutrients and sediment that can enter the watercourses from land and activities in the catchment area of the source. We are now working with local landholders and farmers to identify where this can be addressed through partnership programmes with key stakeholders - and we have formed an organisation called the Mendip Lakes Partnership to work together on these issues. The partners involved include Natural England, the Environment Agency, Wessex Water, Avon Wildlife Trust and the Farming & Wildlife Advisory Group; and we have held a range of successful farm engagement and training sessions with landholders in the key catchment areas.

Biodiversity Index ("BI")

This is a new approach to protecting the environment that involves measuring the value and benefit of our own sites and using the Biodiversity Index to quantify the impact and benefit of our actions on the broader environment. Last year saw the new method put into practice with an increase of our BI from 17,684.59 to 17,613.21. This calculation is the first of its kind to be generated and is therefore incomparable, but can be used to measure how we are performing in terms of habitat protection and enhancement.

An example of the Biodiversity Index in practice was the measurable impact of our hosting of the National Hedgelaying Championships at Chew Valley Lake. The new hedgerows have created important new habitat, and increased the BI by 26.4.

This year we will be applying the Biodiversity Index to the Southern Resilience Scheme. The scheme will be scored before work commences, we will then work with partners, such as Natural England, schools and land owners to create new habitat and improve biodiversity.

Environmental Discharge compliance

This measure is assessed on a calendar year basis and so relates to 2015 performance. We monitor all of our discharges which have been consented by the Environment Agency. Over 95% of the samples we took were fully compliant with the discharge consent conditions. Of the failures recorded nearly one half of them were associated with natural manganese released from a reed bed at Barrow Treatment Works. We are in discussions with the Environment Agency on how best to address this issue.



115,000kg

Water Efficiency measures have saved 115,000 kg CO₂



80m

We use almost 80,000,000 kilowatt hours of electrical energy to treat and distribute water and this accounts for almost 90% of our total carbon footprint

► LEAKAGE REPORT

War on waste



Our proactive and innovative approach to leakage is continuing to have a positive impact on our performance and maintaining our status in the industry top five for this key regulatory target. This year we have achieved 44.2 mega litres per day which is well below our target of 48ml/d for 2015/16 – our lowest ever target level.

This measure is the amount of water that enters the distribution system but is not delivered to customers because it is lost from either the company's or customers' pipes.

For 2015/16, leakage levels were maintained marginally below the control curve throughout the summer and autumn, and were significantly below the normal average throughout the usually high leakage period in December and January. This was a relatively mild winter, so our Winter Task Force did not need to be fully deployed.

The last two AMPs have seen the greatest improvement in leakage performance and this is largely due to the mains and surface replacement programmes carried out, our pressure control implementation project and a more proactive approach towards leak detection, including using some innovative technology and methods.

In the last year we have replaced nearly 5km of the distribution mains network that was in poor condition and repaired around 3,900 leaks on our system, including approximately 700 burst water mains. In addition to the leaks repaired on our network we also identified in excess of 1,500 leaks on private customer service pipes, providing free or subsidised repair of these private leaks in more than a third of cases.

Leakage detection

The Bristol Water area of supply is divided

into District Meter Areas (DMAs) and each area is remotely monitored using a variety of telemetry and logger solutions, so that network flow and pressure data is available on a daily basis. This enables Inspectors to hone in on suspected leaks and isolate them so fewer properties are affected.

Our team of 23 Leakage Inspectors have a range of skills and equipment at their disposal. They select the appropriate method of leak location depending on the situation, but the techniques that are predominantly used are isolations (splitting the DMAs into smaller network elements when leakage is suspected), leak noise sounding using listening sticks, and leak pinpointing using analogue and digital correlators.

For this reporting year 97% of all properties are under continual night flow monitoring in 387 District Meter Areas. On average approximately 339 (92.7%) days of valid night flow data was obtained for these areas and used to determine average night flow levels, which enables us to pick up any anomalies early.

On a daily basis we are focused on pressure optimisation and active leakage control and we have shifted from 80% customer detection to 60% – meaning that 40% of leaks are discovered and fixed before any visual signs emerge.

While active leak control is industry standard, we are helping develop advanced network management through a five year collaboration with Imperial College London and Cla-Val. The Dynamic District Meter Area (DDMA) project is being tested in Bristol and is enabling us to monitor and meet water demand across the city by using advanced pressure, flow monitoring and leakage management. We are continually exploring new ways of improving on current practices and provide a step changes in leakage

control, including the use of helium gas to detect leaks.

Pressure reduction

A vast program of pressure management was implemented under the previous AMP programme, starting in year 2008-09. This scheme involved the investigation, implementation and commissioning of new control valves aiming to reduce background leakage and burst rates.

The outcome of this project resulted in 72 new schemes being introduced, with additional pressure optimisation of existing schemes. Although no new schemes were introduced in 2015/16, further optimisation of the latest schemes was carried out. The current coverage of pressure management covers now almost 60% of the properties in the Bristol Water supply area.

In addition, existing systems are further optimised with ancillary controls systems and pressure management technology (electronic and hydraulic flow modulation of the Pressure Control Valve), as well as a number of advanced pressure management system being trialled this year. In order to maintain the leakage savings and burst reduction achieved through pressure control, an active program of control valve maintenance is on-going with valves undergoing periodic scheduled maintenance.

Having achieved so much in the last two AMPs our targets are now set to help us achieve a more gradual and sustainable drop in leakage levels. This is essential in order for us to deliver an economically viable leakage management programme to benefit the business, our customers and the environment.

Advanced leakage detection means that 40% of leaks are discovered and fixed before any visual signs emerge.



TOM CLIFFORD JONES, LEAKAGE INSPECTOR

Best people, right culture

Employing the very best people and fostering the right culture within our business is key to our continued success.

Employees

We need the best employees in order to achieve our goal to deliver an exceptional customer service and ensuring that our employees remain motivated and skilled in their roles is of paramount importance to us.

Our appraisal process enables all staff to have an opportunity to review their performance and talk about development needs at least twice a year. We have a comprehensive view of all required training in our operational areas and update our systems so that we know what training is expected, when it was completed and when it is next due for all roles.

Our employee engagement surveys are carried out every three years and the next one is due in 2016. Engagement surveys are not a measure of happiness or satisfaction; they gauge employee sentiment around passion for and pride in their work, whether they believe in the vision of the organisation, and if their work is valued and their talents are well utilised. This year the engagement survey will be conducted after a period of major change and we will use the results to highlight areas that require additional focus to restore balance to the workforce, the business and our customers.

Improving communication across the entire business is important to us. Ensuring the workforce feel included and informed of company, industry and market news is a proven motivator. We are reviewing our communication to staff so that we continue to improve this area and also to further improve two-way communications. The weekly ‘CEO Update’ continues to be successful and provides regular insights into the key issues that the business is facing.

Safe working practices

The health and safety of our employees, contractors and members of the public is paramount and we invest in continuous training programmes and safety audits to keep them protected. We operate 24 hours a day every day of the year so there are special welfare needs to consider and we must also ensure all our contractors share our vision.



We continued our internal behavioural safety campaign throughout 2015 to have a positive impact on our accident performance numbers and a number of initiatives have been run to raise awareness among our people. All contractors who work on our sites receive a specific contractor induction supported by a Code of Conduct booklet. We also hold regular health and safety committees with representatives from across the business, where risks and issues are reviewed and appropriate actions agreed. Our continued aim is to reduce reportable accidents to the HSE to a minimum, which means applying a continuous improvement process across the whole company so there is total commitment from all employees and contractors.


Overall Bristol Water is a safe place to work. We have seen a 9% reduction in the number of accidents within our staff and have also seen an improvement in minimising contractor injuries. This will continue to be an area of focus to ensure that longer-term trends are improving and best practice is implemented. In 2015, one accident was reportable under the RIDDOR regulations to the HSE. This accident was an over-seven-day injury.

2015 saw the completion of a three year refurbishment of our head office which has resulted in significant improvements to the way we work.



CEO Luis Garcia (front right) visiting one of our major roadworks to speak to crew and local residents about the impact of the work.



 **9%**
reduction in the number of accidents

Skilled and motivated workforce

Our workforce must be skilled to deliver the outstanding customer service we expect and meet the new challenges we face as an industry. Talented people are the foundation of our success and we do all we can to care for our staff, to motivate them and develop their many and varied skills. The new operating model has focused attention on developing our staff to take on new roles and also provided an opportunity to attract new talent externally.

Performance is a key focus and is managed through the setting and agreeing of personal objectives that align to our strategy. Regular discussions are held as part of the annual appraisal process to review individual performance and also identify and plan training and development needs that support people to competently deliver their role and develop new skills.

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining it. To encourage employee involvement, we also carry out employee engagement surveys.

As an inclusive employer, we promote equality and inclusion throughout our people policies, procedures and practices. We are committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled employees. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Implementation of a new target operating model

During the year, we implemented a new target operating model that ensures Bristol Water is able to meet the changing requirements that the water industry faces, including the move to a TOTEX environment and better asset management practices. Work on this started in 2014 and it represents the continuous improvement culture that we need to adopt.

We are still implementing the new structure, which will result in an overall reduction in staff from 527 to 453. The reduction has been achieved through

a combination of voluntary leavers and redundancies, and a significant number of staff have changed roles. The most affected teams have been operational, they have been split in order to achieve the objectives stated above. We have worked with the unions through these significant changes. We value our relationship with the unions and their help in shaping our choices.

A transition of this scale has been challenging but has enabled the company to move forward with clearer accountabilities and a more efficient operating model that allows the business to focus on the key business drivers. It has been challenging for staff, but we are already seeing benefits for the business and customers, as demonstrated by our good performance this year.

“As an inclusive employer, we promote equality and inclusion throughout our people policies, procedures and practices.”

Sustainable business

We need to spend customers’ and investors’ money efficiently and wisely to retain investor confidence, maintain returns in line with the expectations of the financial markets, delivering improved services and keep water bills affordable.

In 2014/15 we launched Project Channel, a business efficiency programme that instigated a major restructure to help us create a leaner operating model better targeted to meet the demands of the modern water sector. During this first year:

- We have delivered some significant initiatives.
- We have seen savings achieved in energy costs, aligning our IT costs and through restructuring our business model. Our Organisation has been updated to encourage a healthy tension between competing priorities and increasing both accountability and flexibility.
- We are increasing overall efficiency to improve our management and delivery of water services to our customers.
- We consider that the longevity of our business can only be maintained if we remain a highly reputable company with our customers, regulators and other key stakeholders, and to maintain their confidence in our ability to deliver for them.

More detailed information on our financial performance follows in the next section of this report.

Investor confidence

We use effective financial management and open communication to maintain investor confidence in order that we can secure funds to invest in the business to deliver our long-term

strategy. We have maintained better than the minimum investment grade rating required under our licence. Our rating with Moody’s is Baa1.

Fair return to investors

The company’s financial performance in the year was impacted by lower bills, driven by the cost allowance from Ofwat’s Final Determination. The CMA’s determination improved revenue prospects for future years, but reduced Bristol Water’s planned scope of expenditure and increased the level of efficiencies we had assumed. We have plans in place to meet these additional challenges and have taken significant steps in the year to achieve our targets. In order to provide a stable platform for the business to deliver these changes, our Shareholders and Board followed a prudent funding strategy and did not pay dividends to our ultimate shareholders during the year.

Highly reputable

In November 2015, following the CMA redetermination, Ofwat announced its decision to move Bristol Water from the “targeted” to the “prescribed” category on its company monitoring framework. This move, which was specifically related to assurance of forecast data, allows the regulator to more closely monitor the company to ensure it acts in a manner best calculated to ensure that it has adequate financial resources and facilities, and management resources to carry out its regulated activities.



We have since provided the requested assurances in relation to compliance with Licence Condition F6A1, s.37 of the Water Industry Act 1991 (as amended) and our other statutory and licence obligations. In addition, we have developed a comprehensive plan for providing the required assurance information to Ofwat.

Ofwat have received from us the following documentation: a Risk and Compliance Statement approved by our Board; an Overview of our Business Plan for AMP6; Bristol Water’s consultation on strengths, risks and weaknesses of information; and a Summary of our Draft Assurance Plan. These documents summarise our commitment to deliver the performance outcomes for our customers and meet our wider obligations and set out the foundations of our confidence in our ability to meet these commitments.

We are now working constructively with Ofwat to demonstrate that our customer commitments and obligations will be

met in the short and the long term. We recognise that it is essential for every business to build and maintain a good reputation with its customers and other stakeholders. For this reason we seek and track the views of our customers and a range of other stakeholders on an annual basis.

Through our annual tracking research, carried out by independent consumer researchers, we obtain the views of 500 household customers selected at random from our supply area each year. Respondents are asked to rate our reputation.

In the annual survey conducted in April 2016, 75% of respondents felt that our reputation was good or very good, compared with 67% the year before.

Other measures we have introduced include a monthly reputation tracker from customers who have been in contact with us. We have seen a steady improvement in this score in the six months since we introduced this question, starting with 3.93 (out of a maximum 5) in September 2015 and rising to 4.05 in March 2016. These figures are based on customers rating our reputation as very good or good.

In order to obtain the views of other stakeholders we annually survey a randomly selected group of people including MPs, local authority leaders, large business users, regulators and a range of partner organisations. We

have traditionally carried out in-depth interviews with a sample of between 30 to 50 key stakeholders, who are asked their views on how well we perform in a number of key areas.

For 2015/16 we have continued to conduct in-depth interviews (35 in total) but in addition have carried out a more robust online survey, mainly targeted at business customers, that received 271 responses. Of 302 total respondents, 55% rated Bristol Water as a very good or good corporate citizen; the same figure as last year.

We also asked stakeholders/view on our overall reputation and 64% agreed slightly or agreed strongly that Bristol Water has a good reputation. Additionally, 82% regard the service that they receive from Bristol Water as excellent, very good or good.

Stakeholders also expressed widespread satisfaction with the quality of the water provided, and the reliability of supply - and they emphasised the importance of focusing on delivering this essential task.

The in-depth interviews provided really useful detailed feedback on the Company’s performance and reputation over the last year. Encouragingly, Bristol Water was highly regarded by virtually all the depth interview respondents, who were selected because of their status as key influential stakeholders who had regular and current contact with the business.

Our price review referral and the subsequent determination by CMA was well known and many felt that this issue distracted the senior management of Bristol Water. Most understood the reasons and encouragingly all respondents felt that this was now firmly behind us and that we were were re-engaging and making advances in a number of areas, in particular we are perceived to be very strong in customer engagement. We were also praised for being easy to contact, experienced, knowledgeable, hard working and easy to deal with at all levels.

“In the annual survey conducted in April 2016, 75% of respondents felt that our reputation was good or very good, compared with 67% the year before.”

Financial performance

Financial KPIs

FOR THE YEAR ENDED 31 MARCH 2016

	2016	2015
	£m	Restated ¹ £m
Turnover	110.9	132.8
EBITDA	55.3	65.5
Operating profit	36.1	47.1
Profit before tax	27.8	37.2
Profit after tax	28.6	29.4
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	290.8	296.6
Regulatory Capital Value (RCV)	441.2	411.7
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	66%	72%
Capital investment before grants and contributions	29.6	59.3

Turnover of £110.9m is a 16% decrease reflecting CMA's final determination lower price tariffs. For AMP6, Ofwat introduced 'Wholesale Revenue Forecasting Incentive Mechanism' which will allow us in the future to recover the difference between allowed and actual revenue in future years.

EBITDA fell by £10.2m reflecting the lower turnover of £21.9m offset by lower costs of £11.7m. The lower level of operating costs was achieved through our efficiency programme. A risk-based, proactive analysis of need, solution options and timing of expenditure has been introduced that has led to a

significant reduction in network and production costs as well as cost savings in central management costs. The closure of the defined benefit scheme to future accrual was implemented to improve our comparative efficiency going forward, but also led to a re-calculation of the past service cost of the scheme, resulting in a gain of £3.0m.

Operating profit decreased by £11.0m reflecting the £10.2m decrease in EBITDA and a £0.3m increase in depreciation cost.

Profit after tax decreased by £0.8m to £28.6m, the reduction is driven by the reduction in future corporation tax rates

during the year from 20% to 18% which gave rise to a £6.6m credit to deferred tax. During the year, the pension asset deferred tax calculation was changed; deferred tax is now calculated at 35% on the closing pension asset and all the deferred tax is shown in the Statement of Other Comprehensive income instead of being split between here and the profit and loss. The reason for the change to the 35% tax rate is because the scheme has been closed to future accrual and any surplus can not be recovered through ongoing contribution payments. Bristol Water has an unconditional right to the refund of any surplus. Therefore, the pension asset is shown net of a 35% income tax

rate which would be applicable if the funds were repaid to Bristol Water from the pension scheme. Overall, there is a tax credit of £0.8m in the current year compared to an overall tax charge of £7.8m last year. The overall effective tax rate was -3% (2014/15: 21%). The principal reason for the effective tax rate being lower than the standard corporation tax rate of 20% (2014/15: 21%) is the effect of the rate change on the opening deferred tax balances during the year.

Net debt

The main cash sources we use to finance our normal operations and the extensive capital programme are the water bills paid by our customers and debt from financial markets.

Net debt excluding the 8.75% irredeemable cumulative preference shares was £290.8m (2014/15: £296.6m), representing approximately 66% (2014/15: 72%) of the RCV of £441.2m (2014/15: £411.7m). The increase in RCV reflects AMP5 opening adjustments of £11.9m, an increase due to indexation of £6.6m and net additions to RCV during the period of £11m.

We actively manage the net debt (gearing) ratio and maintain a headroom margin to meet adverse impacts from risks and uncertainties.

Our practice is to maintain a debt portfolio with mainly long dated

maturities reflecting the long-term nature of the Company's asset base. Cash, including deposits with banks, was £18.0m (2014/15: £10.5m), the significant cashflows during the year were:

- cash inflow of £50.9m from operations,
- net cash outflow of £29.3m for capital expenditure,
- repayment of £0.3m debt,
- nter-company loan interest related dividend of £3.2m,
- net interest payments of £8.5m, and
- corporation tax payment of £2.2m.

Dividends

It is our practice to pay an annual level of ordinary dividends comprising:

- a base level taking into consideration the revenues allowed by Ofwat in the five 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.

Due to the appeal of the Ofwat Final Determination, our Board and shareholders agreed that no base level dividend would be paid during the year (2014/15: £10.3m). Whilst the CMA determination was more favourable, the Board and shareholders have agreed to continue to limit dividend payments

at the start of this regulatory period in order to take a prudent approach to financing the company's operations. A dividend payment of £1m was approved in May 2016 in respect of 2015/16 performance.

Dividends in respect of the inter-company loans paid during the year were £3.2m (2014/15: £3.2m). In addition, annual dividends of £1.1m (2014/15: £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.



¹ From 1 April 2015 the company adopted FRS101. The impact of adopting FRS101 is set out in note 5 of the Financial Statements.

Pensions

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

During the year, it was announced that the Company would close its two sections of the WCPS to future accrual for existing members at the end of 31 March 2016. The two sections are part of a defined benefit scheme and members of this scheme became 'deferred' members on closure. Employees who were part of the schemes received one year's future accrual.

The latest triennial valuation of the pension scheme was completed as at 31 March 2014. The total deficit as at 31 March 2014 measured on a long-term scheme funding basis was £2.8m. This represented a funding level of 98.4%. As a result of the Trustee's advice, we have changed the regular contributions for the main sub-section from 36.7% to 33.9% and for the alternative benefits sub-section from 24.9% to 27% from April 2015, of the relevant payroll costs.

From 1st April 2016, there are no anticipated employer contributions to the scheme. Subsequent to the year end, the Trustees have agreed that deficit contributions, previously of £0.4m per annum, will cease on 30th June 2016.

The actuarial valuation under International Financial Reporting Standard 19 (IAS 19) and therefore FRS101 at 31 March 2016 shows a net pension surplus of £31.9m which has been recognised in the financial statements (2014/15: £46.3m). The funding deficit of £2.8m and the accounting surplus of £31.9m are not comparable because:

- the funding deficit is based on a position at 31 March 2014 and the accounting surplus is based on a position at 31 March 2016, and
- the approach for valuation of scheme liabilities in the financial statements is very prescribed by accounting standards

The pension fund is in surplus under IAS19. As the scheme has been closed to future accrual the surplus can not be recovered through ongoing contribution payments. Bristol Water has an unconditional right to the refund of any surplus should one exist at the termination of the scheme. Therefore, the pension asset is shown net of a 35% income tax rate which would be applicable if the funds were repaid to Bristol Water from the pension scheme.

Further financial information in relation to defined benefit and defined contribution pension schemes is disclosed in note 23 to the financial statements.

Capital programme

During the year, we invested £29.6m (2014/15: £59.3m) in capital expenditure before contributions. The capital spend in 2015/16 was significantly lower than the prior year reflecting the commencement of the AMP6 capital programme and that the company adopted a prudent approach due to the uncertainty in cost allowance during the appeal of the Ofwat final determination to the CMA. Following the outcome of the CMA final determination, expenditure was kept lower than the previous year after adoption of a risk-based investment decision process.

Capital investment during the year included the following key projects:

- Commencement of the Southern Strategic Support Scheme which is our biggest scheme for AMP6. Work has also started on the 30km of trunk mains from Barrow Treatment works to Sandford and Cheddar to Banwell.
- Replacement of 5km of the distribution

mains network that was in poor condition.

- Enhance the treatment process at Barrow by installing ultra-violet disinfection equipment.
- Construction of a new reservoir and pumping station at Dundry to increase capacity to 1.1Ml.

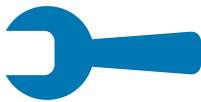
“Capital investment during the year included commencement of the Southern Strategic Support Scheme, which is our biggest scheme for AMP6.”

Regulatory Period 2016-20 Summary

- In line with our Final Determination from PR14, the Company has started to deliver the following key outputs for the regulatory period 2016-20:
- Construction of a Southern Strategic Support scheme, including 30km of new trunk mains and a new reservoir.
 - National Environment Programme to discharge our obligations to address adverse environmental impacts including catchment management schemes to reduce metaldehyde contamination and eel protection scheme.
 - Lining of 65km of trunk mains to improve water quality in respect of iron and discoloured water.
 - Construction of Stowey pH correction treatment works
 - Maintenance of stable serviceability for infrastructure and non-infrastructure assets.
 - Construction of Barrow UV treatment works
 - Replacement of 233km of mains over the AMP – an average of 46.6 km per annum.



- At 31 March 2016, progress towards the above improvements was as follows:
- As noted above, the capital programme expenditure was scaled back until after the outcome of the CMA Final Determination. Current year expenditure is detailed above.
 - There has been an initial start on the National Environment Programme investigating the presence of invasive species and the protection of eels.
 - Commencement of Stowey pH Correction Treatment works in 2017/18
 - Barrow ultra-violet treatment works has been substantively completed



46.6km

Replacement of 233km of mains over the AMP – an average of 46.6 km per annum.



30km

Construction of a Southern Strategic Support scheme, including 30km of new trunk mains and a new reservoir

Risk and uncertainty

Risk is an inevitable aspect of operating a business. Decisions that balance risk exposure with intended financial rewards within risk tolerances are the responsibility of our management under the supervision of the Board.

Risk management framework

We recognise the importance and benefits of timely identification, assessment and management of risks that may impact our ability to achieve our strategic objectives. In this respect, we are committed to prudent risk management practices within the context of an Enterprise Risk Management (“ERM”) framework. A risk register is maintained and a comprehensive review is undertaken on a bi-annual basis by the senior managers group and the Board.

Our ERM framework is based on four core principles which establish the culture and tone that guide risk management decisions. Risk management is:

- Everyone’s responsibility;
- About decision-making;
- Embedded within existing management routines; and
- About people and culture

Our implementation of the ERM framework includes the following hierarchy of responsibilities:

- **Board of Directors and Audit and Risk Assurance Committee** (“ARAC”) have overall governance responsibility for overseeing management’s implementation of the risk management policy.
- **Internal Audit** is responsible for reviewing management’s practices to manage risk and reporting to the ARAC.
- **Senior Management** is responsible

for the implementation of the ERM framework to all applicable activities and reporting to the ARAC.

- **Business Units** are responsible for the application of a risk management framework to identify, monitor and report risk.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.

Risk management processes

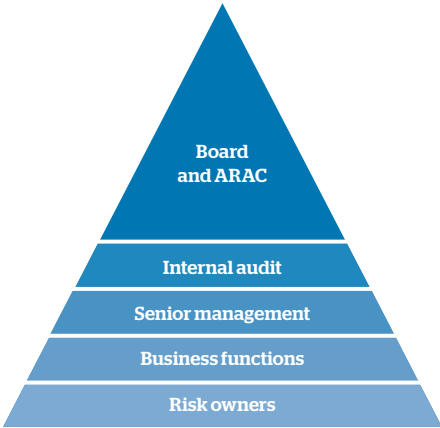
The following six key ERM processes integrate risk management activities with strategic and operational planning, decision-making and day-to-day oversight of business activities.

- **Risk identification** is the process of identifying and categorising risks that could impact our objectives.
- **Risk assessment** is the process of determining the likelihood and impact of the risk. We use a five point rating scale for likelihood and impact.
- **Risk prioritisation** is the process of ranking risks and considering our appetite to those risks based on the Corporate Risk Appetite Statement.
- **Risk management** responses are measures taken to optimise our net risk exposure within overall tolerance to achieve the desired balance between risk and reward.
- **Monitoring and reporting** are the processes of assessing the effectiveness of risk management responses.
- **Training and support** ensure that personnel tasked with risk

management responsibilities have sufficient knowledge and experience to complete their risk management obligations.

Our risk management approach is comprehensive and proactive and is supported by the experience and specialised knowledge of the senior management. We use a risk matrix to regularly assess and update the net exposure (including mitigating factors) of each known material risk.

We recognise that we operate within a complex regulatory environment and it is not economically viable to fully mitigate all the risks that we face. Therefore we prioritise our risk management strategies by assigning the risks into three risk categories as shown below.



ENGINEERING TECHNICIANS MARTIN HARRIS AND ALEX MOSS AT PURTON TREATMENT WORKS.



Lower appetite risks, where we seek to fully mitigate risk in most circumstances and where innovation is encouraged, but not at the risk of loss of performance:

Risk and description	Impact	Monitoring and Mitigation
Water Quality, Health and Safety and Environmental incident risks are operational risks concerning failure of our mitigations and controls to prevent an accident, pollution or water quality incident	Incidents and accidents could have harmful impacts on employees, the communities that we serve or the environment, leading to reputational damage, penalties and remediation costs resulting in lower net income.	We minimise our incident and accident rate by following approved procedures, monitoring adherence to these procedures, proactive asset maintenance and providing adequate training.
Major incident risk is an operational risk associated with the significant failure, or prolonged loss of use, of a key operational asset or location	Major incidents could impact our ability to supply water for prolonged periods and may have harmful impacts on the environment and communities we serve leading to reputational damage, penalties and remediation costs resulting in lower net income.	We assess and improve resilience to reduce the population exposed to major disruptions to water supplies. We also undertake exercises and training, developing business continuity plans to minimise customer impact.

Moderate appetite risks, where we accept some residual risk and where innovation is encouraged:

Risk and description	Impact	Monitoring and Mitigation
Regulatory submissions & compliance risks are strategic risks, which cover price determinations and our Water Resource Management Plan (WRMP)	The price determinations periodically made by Ofwat limit the prices the Company can charge its customers.	We have dedicated internal resource focused on these key submissions, supplemented by external input as required, and with appropriate governance in place.
	WRMPs set out how we intend to meet customers' water needs over the next 25 years, and are therefore closely linked to subsequent price determinaiton submisisons.	We have also conducted internal and external reviews of our approach to PR14 to identify key learning points for future submissions.
Funding and Investor confidence risks are strategic risks concerning the ability to access timely and cost effective debt or equity to support our capital expenditure programme and replace maturing debt.	Inability to access cost effective debt or equity could result in higher interest costs, lower cash flow or liquidity difficulties.	We maintain good relationships with our equity and debt investors through regular performance reporting and communication.
		We closely manage our funding and debt servicing, maintaining sufficient liquidity to meet 12 months' funding requirements.
Water Resource risks are strategic risks, which include planning for increased population and demand for water, together with climate change and extremes in weather.	Inability to maintain water supplies by underestimating the demand for water in comparison to the resource available.	We maintain Water Resource Plans to manage long term water resource risk, allowing us to develop risk resilience. We encourage customer metering, promote efficient use of water by customers, and we actively manage leakage to control wastage from our system.
		We maintain business continuity plans and ongoing monitoring of resource levels to manage residual exposures.
Change in regulatory regime is the regulatory risk of changes in the Regulatory Regime adversely affecting us, including the introduction of Retail competition, Upstream separation and Abstraction reform.	Favourable changes can create new opportunities for greater efficiencies, while unfavourable changes can reduce efficiency, increase costs and have harmful effects on employee and customer relations. The abstraction reform may also affect the Water Resource risk.	We monitor and maintain active dialogue with policy makers to identify opportunities and respond to any legislative changes to minimise the impact.
		In respect of Retail Competition, we are working with our joint billing partner, Wessex Water, to set up a new retailer, water2business.
Expense management risk is the financial risk concerning unexpected non-recoverable increases in costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	We mitigate this risk by following policies, procurement strategies, efficiency initiatives, and reducing exposure / hedging where appropriate.

Risk and description	Impact	Monitoring and Mitigation
Customer Satisfaction is a reputational risk in relation to meeting customer service expectations	Delivery of good customer management practices is aligned to our corporate strategy, and can reduce negative customer feedback and result in financial reward through the pricing mechanism. The opposite is also true.	We mitigate this risk by following policies and procedures in support of our "Bristol Water Bond".
		We perform monthly surveys to assess customer satisfaction and communicate with the public through a variety of media.
Supply Chain Failure is an operational risk of not being able to maintain supplies of key materials or services	Failure to maintain key supplies may result in an inability to operate specific treatment processes, increasing the risk of supply interruptions.	We have a flexible approach to dealing with specific incidents, for example extending call centre hours.
		We operate procurement processes to reduce exposure to a single supplier and seek treatment solutions which avoid supply chain failure risk, within our investment strategies.
Asset management risks are operational risks relating to managing and operating our collection, treatment and distribution assets.	Inability to manage asset risks effectively may result in increased supply interruptions, resulting in additional costs and reduced customer satisfaction.	We prioritise maintenance plans based on performance monitoring, inspections and key exposure assessments.
Capital investment evaluation and delivery is a strategic risk concerning our ability to invest effectively and efficiently.	Inability to evaluate and deliver the capital programme may result in inefficiencies and potential financial penalties through the pricing mechanism where performance targets are not achieved.	We control the evaluation risk by following policies and procedures to assess and authorise appropriate solutions.
		We control the delivery of the programme through a controlled gateway project management process from feasibility to completion.

Higher appetite risks, where we accept more residual risk and where speculative innovation is encouraged:

Risk and description	Impact	Monitoring and Mitigation
Human resources retention risk is an operational risk concerning the ability to motivate, attract and retain staff.	Adequately trained and motivated staff are fundamental throughout the business in improving the customer experience both when incidents arise and through working towards our corporate aims.	We publish external compliments received on the internal website and we encourage staff involvement through an incentivised suggestion scheme. We use mobile working tools to reduce paperwork and improve communications for offsite workers.
Current challenges include the restructuring around introducing the new operating model.	The transition to the new operating model brings challenges with identifying roles and responsibilities, the loss of experienced staff, and an increased number of vacancies.	We reduce uncertainty during periods of change by consulting with staff on the restructuring and other key issues, and providing dedicated resource to manage transition issues. Knowledge and talent risks are managed within the operational model project.

Long-term liability statement

Leaving the European Union

We have considered the recent decision of the UK to exit the European Union, and the potential associated risks. At this stage the impact is unknown. We believe the impact will be limited as we are UK based and a regulated company. We will monitor the situation.

Long Term Viability Statement

The Directors have performed a detailed assessment of Bristol Water's viability over a four-year period to March 2020, the end of the current Asset Management Period ('AMP'), and have also considered viability in the longer term.

Ofwat, the economic regulator for the water industry, sets a company's revenue over each five-year AMP period. Our revenues over the next four financial years, subject to inflation, were set out in the CMA determination.

Considering the long-term nature of the business, the protections that exist under the regulatory model for price control periods, the Company's current position, and its ability to effectively and efficiently manage and finance its operations, the directors have determined that the four year period to the end of the current AMP is appropriate to primarily assess the Company's long term viability.

The Company funds its investment programme through access to debt markets, securing funding that

balances the long-term nature of the business with the need to maintain efficient costs. The Company is required to hold sufficient funds to meet its Regulatory Licence and debt covenant requirements, which include maintaining an investment grade credit rating. The Company sets formal criteria and limits are placed on suitable borrowers to mitigate risk in this area, with the Board approving named authorised lenders with specific lending limits. The Directors have made a key assumption that the Company is able to access markets to raise finance as required.

A new business plan was developed following the CMA outcome covering the period to March 2020. This plan considers the Company's current position, future cash flows, financing options, and key financial ratios. The new plan takes into account the current economic outlook and the impact of the reduced expenditure allowances compared to the original plan.

The revised business plan has been stress tested to assess the potential impact of the Company's principal risks and uncertainties and the effectiveness of available mitigating actions. Risks that have been assessed include high inflation, interest rates and costs, tested in severe but plausible combinations. Available mitigations include restricting dividend payments, discretionary operating expenditure and pro-active capital expenditure. The company is

committed to maintaining a credit rating that is above the minimum investment grade level. In an extreme scenario, a fall in rating to the minimum investment grade level would loosen the financial constraints that the business is managed under, whilst continuing to meet Regulatory Licence obligations and covenants. The Directors are confident that the mitigating actions are sufficient to address the combinations of risks that have been considered.

Based on this assessment, the Directors confirm they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the four year period ending March 2020.

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in note 3.1 to the financial statements.

Due to the long term nature of the business, the Directors have also given consideration to the viability of the business beyond the current price control period. There is inherently less certainty beyond the end of the current AMP, but the Company is committed to meeting its regulatory obligations and being efficient. The Directors are confident that actions being taken in the current AMP will mean the business is also likely to continue in operation through the regulatory period to March 2025.

Outlook

This is based on the following key assumptions:

- As a result of our on-going efficiency programme, Bristol Water will be less of an outlier in the cost assessment for PR19. Significant milestones have already been achieved.
- The risk-based approach adopted in AMP6 for investment decisions has improved our understanding of the risks and the potential impacts on the Company. This has enabled the Company to better prioritise its' expenditure to meet performance measures in the most efficient way, whilst also allowing it to better evidence the need for its' proposed investments in AMP7.
- Inflation increases will not be detrimental to the Company as the regulatory regime is set on a real basis, passing inflation risk on to the customer.
- The switch from RPI to CPI inflation in the next price review will not be a significant issue for Bristol Water as the Company's indexed-linked debt is less than 50% of the value of its' RCV (the level Ofwat propose will continue to be indexed by RPI for AMP7.)
- Our shareholders remain supportive long-term investors.

Our external auditors, PricewaterhouseCoopers, set out the extent of their review of our viability statement in their audit report on page 141.

The main drivers of 2016/17 profitability are expected to be:

- **treated water revenues** - these are expected to be similar to 2015/16, with increases due to inflation and customer growth occurring during the later years of AMP6;
- **operating expenditure ("opex")** - this is expected to slightly increase in 2016/17. Management is committed to achieving efficiencies across the business, but the higher cost allowance will allow the relaxation of some of the temporary restrictions enforced during 2015/16. In addition, 2015/16 opex benefitted from a non-recurring credit of £3m arising as a curtailment gain from the closure of the defined benefit Water Companies' Pension Scheme to future accruals, but also incurred significant expenditure on the CMA process;
- **inflation or deflation** - operating costs, capital expenditure and the Company's index-linked debt are subject to inflation based on RPI at various points in the year. Potential adverse impacts of high inflation or deflation are mitigated by the linking of the majority of revenues through the previous year's November RPI;
- **energy costs** - energy costs are significant for the Company; spot power costs are constantly changing in line with crude oil and gas markets. Management expects costs to remain volatile in the future and to mitigate the effect of adverse movements the Company's policy is to monitor prices and enter into appropriate forward

contracts to "lock in" future supply prices. The company has fully hedged its exposure to energy commodity costs for 2016/17;

- **socio-economic conditions** - significant changes in the socio-economic conditions of customers may impact upon recovery of billed amounts;
- **weather** - severe weather patterns can affect the profitability in various different ways. Measured income can be affected by changes in volume consumption, chemical and power costs can be affected by raw water quality and availability of different water sources; and
- **network maintenance costs** can be affected by mains burst activity.

Capital expenditure for the 2016/17 year is expected to increase as the company now has a clear revenue allowance and therefore the certainty to commence schemes. Significant schemes include the Southern Resilience Scheme and the continuing programme of trunk mains relining and mains replacements.

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

Luis García
Chief Executive Officer
14 July 2016

Corporate social responsibility

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Our reputation is hugely important to us and we understand that our activities can have an impact on the communities we serve and the environment we steward. We seek to minimise this by delivering services responsibly and sustainably while managing the social, environmental and economic impacts of supplying quality water for our customers now, and in the future. This report provides an overview of the work we have done to embrace responsibility for our corporate actions and to encourage a positive impact on the environment and stakeholders including customers, employees, investors, communities and others.

Customers

Our focus is to improve the culture of the organisation by putting the customer at the heart of every decision. Here are some of the ways we are working to improve our customer care

Customer Service

Nearly 450 people work at Bristol Water in a diversity of roles, from engineers to call centre operatives, from water quality scientists to recreation rangers. In order to enhance understanding of how all of our jobs impact on the customer, we took part in the Institute of Customer Service's 'Customer Service Week'. This gave employees a chance to host workshops to inform and engage their colleagues in the projects they are involved in, and staff were also given the opportunity to experience different customer-facing roles.

It was a highly successful week with a competitive team element to encourage participation and genuine feedback from staff that it was valuable and they'd like to do more.



Since then we have implemented a new programme of enhanced customer care, with new training in complaint handling and increasing our customer feedback channels.

We value our customers' opinions and already survey our customers in a number of ways; we do monthly follow up feedback surveys with customers who have been in contact with us (our economic regulator Ofwat also does this every quarter) and we also do an annual survey of 500 customers. We also encourage feedback from every job that we do, with freepost feedback cards posted through doors.

Our new channel to gain improved customer insight is a quarterly online panel called 'Let us Know' which was launched in February and 1600 people signed up to take part. As well as rating our service - overall 86% said we were 'good, very good, excellent' - we received 500 comments and this type of feedback can only help us continue to improve our service to customers.

We also have a new customer champion in Peaches Golding OBE, who has been appointed as Independent Chair of Bristol Water's Challenge Panel. Customer Challenge Panels and Groups hold water companies to account on performance and are used to influence business planning and provide ongoing assurance to Ofwat. Mrs Golding is a trusted and respected business and community leader with an array of experience in

representing customer groups. As Chair, she will ensure Bristol Water customers' views are at the heart of decision-making.

Customer communications

Our complex water infrastructure requires regular maintenance and renovation and this work can impact customers through supply issues or roadworks. We realise the importance of keeping customers informed about planned work and its progress, and we communicate with them in a variety of ways to maximise our reach.

Occasionally we have to deal with burst water mains that can cause supply problems. On a daily basis we focus on providing the best methods of customer communication, as this is an area our customers tell us is increasingly important.

In 2015/16 we introduced Twitter and we now have more than 1000 followers. As well as providing an effective broadcast channel for our emergency and corporate news, our customers appreciate the quick response to queries, and enjoy sharing their pictures, news and points of view with us. We have also introduced SMS text messaging and voicemail to keep our customers informed about planned works or disruptions. We have used this mostly to warn people of unplanned supply issues, sending texts to affected customers who we have a mobile number for, and voicemails to those with a landline number. Over the next year, we will extend this service to



86%

Our online customer panel rating for our service. 86% said we were 'good, very good, excellent'



263,193

We had a total of 263,193 unique visitors who used our website

include reminders of appointments and also introduce a live web chat function.

We write to all households to inform them of upcoming work in their area, we publicise and host drop-in sessions at our mobile Customer Service Unit so people can talk to us directly, and we have assigned special helpers among our work crews so the public can easily identify who to talk to on site. In addition, we provide updates on our website and use the local media to warn people about road closures and traffic hot spots.

During 2015/16 we had a total of 263,193 unique visitors who used our website 370,984 times viewing a total of 1,015,256 pages. There were 1016 average daily sessions with 6,275 being the highest daily recorded on the 23rd September, when we experienced a burst main in Bedminster. It is clear the website is an important channel for customers and this year we upgraded it to provide improved access to information from mobile devices as they are now the predominant way of accessing the website.

Our customer magazine Watertalk is distributed to every household in our supply area, providing a cost effective medium to communicate to our customers. We gave the magazine a complete design overhaul in this year.

In April 2016 we submitted the planning application for the £27million Southern

Resilience Scheme, a scheme designed to secure the water supply to over 280,000 people across Somerset. Getting to the planning application stage takes a lot of work and a lot of public engagement. So even before it was submitted we were off meeting Parish and Town Councils, writing to all those residents affected.

One of the main difficulties with communicating a scheme of this size to the public is making relevant to each resident. So to do this we have created an interactive map that gives times and dates of every single time we cross a road telling the customer exactly what will be happening. So a resident may be thinking 30km of pipeline; £27 million - that sounds big and an awful lot of disruption.

But with the map they can see that the roads near them are only closed for a week or so. With schemes this large it is easy to focus on the big picture and the overall message. But how it affects customers is what people actually want to know, so we have tried to break it down to loads of small parts and give people that detail.

Support for customers

This year our customer service team have focused on vulnerability: whether in terms of ensuring accessibility to our services or in terms of affordability - recognising that all customers can potentially be vulnerable at any time, that it is transient and situational. We are

working hard to identify and adapt to help those in vulnerable circumstances.

As well as offering a tailored and sensitive approach, we are training our staff to be more aware of vulnerability triggers and signals and helping them engage with vulnerable customers and build trust.

All of our customer-facing employees interact with customers who may be in a vulnerable state and we have introduced best practice and case study sharing and simplified customer service policies, as well as empowering our employees to provide flexibility for the customer.

"We are amongst the first in the industry to introduce a Pension Credit scheme that gives a 20% discount on water bills."

It is vitally important to us that we quickly identify and help those who are struggling to pay their water bills. Our attitude is that we have a life-long relationship with our customers and we want to make it a positive one, and for people to value our service. We take a proactive approach to identify those who may benefit from the social tariffs, payment and debt management schemes we offer. We assess customers on an individual basis and look to tailor the package of assistance offered to their needs.

At the moment, 10,920 households are currently benefitting from our 'Restart' and 'Restart Plus' schemes and 'Assist' tariff, which help customers who are in financial difficulty get back on track with their water bill. The number of customers receiving assistance through these measures has increased by 3.4% since last year.

1,831 households are on our WaterSure Plus metered tariff, which is for customers in receipt of certain benefits and are defined by the government as 'vulnerable', either because they have a medical condition or a large family. We are amongst the first in the industry to introduce a Pension Credit scheme that gives a 20% discount on water bills to Bristol Water customers who live in a household where all members over the age of 18 are in receipt of Pension Credit.

Elderly and disabled customers, those undergoing home dialysis or have priority needs can also register for Customer Care Plus which gives access to a range of special services free of charge.

We know that water debt is seldom isolated and we work to provide independent debt advice, working closely with the agencies that provide these services. In 2015/16 we donated £50,000 to debt advice agencies across our supply area to support them in providing free advice to our customers.

Helping you save water

We offer free water-saving equipment and kits to help you save water and save money. Tap inserts, shower regulators, save-a-flush devices and shower timers can help you save over £160 on your

utility bills if you are on a water meter. If you're not on a water meter, the devices will help reduce the amount of hot water you use, so you'll need less fuel to heat it. It only takes a few minutes to order your free pack - visit www.savewatersavemoney.co.uk



► CASE STUDY

Jan is a mother of four who lives in Greenbank, Bristol. In 2012 she found herself in debt for the first time in her life. She discovered that her former partner had not paid the bills for almost two years, and left her facing thousands of pounds of debt. This included over £2,000 to Bristol Water and similar amounts to other utility companies.

"Debt was something that happened to other people, not me. I'd never thought about it before," Jan explained, saying it took a while to admit to herself what was going on; she did not want to believe it had happened to her.

Jan just needed a little help; she'd never been in this position before she had no idea how to cope. Eventually she ended up at Talking Money in Old Market. "It was so simple once I was

there. No criticism from anyone, no judging me. They just wanted to help".

She was advised to call the utility companies and that they would help break down the payments to make them manageable. That is exactly what she did. She called Bristol Water and told us she was struggling to pay. We put Jan on a new tariff called 'Assist' and a programme called 'Restart' to repay her debt. By 2014 her debt was clear.

"Dealing with the companies was easy as pie. Not only does it heal some emotional pain, but speaking to the companies you owe money to makes you realise they only want to help."

"Everyone is so nice I don't know why I was so scared. Everyone knew what they were doing as they deal with these sort of things every day."

Environment

Bristol Water plays a pivotal role in sustaining a healthy environment and efficiently using resources. Bristol 2015 European Green Capital was a great platform for us to showcase this.

Providing an outstanding water service in a sustainable way means we must engage with our customers and stakeholders and focus on our environmental vision to make efficient use of resources. Our performance results are outlined on pages 95 to 136, but there's a lot more to tell.

Leaks and bursts

We have again met our lowest ever leakage target set by Ofwat with leakage levels continuing to be among the best in the UK. Leakage targets are set by Ofwat at a level where the overall value of the water lost is balanced out by the costs of increased leakage control activity.

Water efficiency campaigns

Saving water is good for our customers and good for the environment as it reduces their water and energy bills - it's also good for Bristol Water as it reduces our energy consumption and helps reduce our carbon footprint. This is one of the main topics we promote through our events and education programmes. Over the past year, we have carried out a number of events and handed out 35,000 free water-saving devices, which has helped our customers to save half a million litres of water every day.

We also help local schools to save water and money through our Eco School Challenge, during which we carry out a water audit for the school, water workshops for the children and distribute water-saving devices for teachers and pupils to take home. In 2015/16 five primary schools took part and saved an estimated 18 million litres of water.

Biodiversity and wildlife

Our commitment to protecting biodiversity can be shown through a new measure we have developed called the "Biodiversity Index". This new approach helps us to measure the value of our own sites and then quantify the impact and benefit of our actions on the broader environment. Last year saw the new method put into practice with an increase of our index from 17,613.21 to 17,684.59.

As part of our National Environment

Programme commitments we continue to work closely with the Sustainable Eel Group and local wildlife groups to help protect the critically endangered European eel. As part of our alternative measures we have helped deliver a number of projects to help address this issue and protect the eel in the watercourses we manage.

Our Spawn to be Wild project, in partnership with Avon Wildlife Trust, enables local school pupils to care for eels before releasing them into the wild. This year schools from the North of Bristol took part with releases taking place at the historic Berkeley Castle. The project has also recently won a Green Apple award for environmental best practice.

Partnering with Westcountry and Bristol Avon Rivers Trusts we have launched a citizen science project to monitor eel populations, engage volunteers and help "restock" eels over migratory obstacles. We are trialling the new methodology at pinch points, using a vertical drop net known as a ballerina skirt that provides refuge for eels until they are able to access new habitats. This conservation effort also contributed to the World Fish Migration day and the final global eel count of 29 million eels.

Our other education programme Trout and About also had another successful season, with four Bristol schools taking part in the scheme, hatching baby trout in a tank in the classroom, rearing them and releasing them in to our lakes.

(BELOW) DIRECTOR OF CUSTOMER SERVICES BEN NEWBY IN THE SPOTLIGHT AT THE BRISTOL 2015 CLOSING CEREMONY.



Spawn to be Wild is an award-winning project to save the critically endangered European Eel.



500,000

Over the past year, we have handed out 35,000 free water-saving devices, which has helped our customers to save half a million litres of water every day.

Catchment management

In AMP5 our focus was to reduce metaldehyde concentrations in the water we abstract from the Gloucester & Sharpness Canal. To do so we promoted the use of alternatives to metaldehyde and encouraged farmers to take a more strategic approach to slug control. Accompanying this we implemented a strategic monitoring programme to develop our understanding of risk areas in the catchment.

For AMP6 we are continuing the work we started in AMP5 on metaldehyde, with catchment management now a requirement under the National Environment Programme. We are implementing a broader programme to include nutrients (nitrates and phosphorus) and soils in not only the canal but also our Mendip reservoirs. Our catchment management work includes a water quality monitoring programme as well as engagement with farmers and other stakeholders.

In late 2014 we formed the Mendip Lakes Partnership, comprising Bristol Water, Natural England, Environment Agency, Catchment Sensitive Farming and Avon Wildlife Trust, to bring together organisations with an interest in improving environmental management across the Mendip catchments. By working together we can present a unified and coordinated message, providing a single point of contact for farmers to receive advice and support to reduce diffuse pollution risk from

their farms. The Partnership is working with farmers to provide specialist advice and analysis of nutrients, soil fertility, slurry and manures, as well as support with applications for the new Countryside Stewardship Mid-Tier and Higher Tier schemes and Water Capital Grant schemes. Bristol Water is also running its own capital grant scheme to provide an additional impetus for real improvement in the Chew and Blagdon catchments. Future plans include setting up soil management trials and development of a farmer led steering group for the project.

Other Environmental Investigations

Our National Environment Programme obligations include a requirement to look at how Chew and Blagdon Reservoirs affect ecology in the downstream watercourses; the River Chew and the River Yeo, and to come up with and trial feasible mitigation measures for any impacts we find. The first impact assessment phase of this work has been completed, and we are about to embark on the options appraisal stage. Initial findings are that our compensation releases are very different from the flows expected in a natural situation and that this is affecting the sorts of gravels found in the river beds for some distance downstream of the reservoirs.

We have two water quality investigations under way under the National Environment Programme: one at Barrow Reservoir No. 3 to determine

the causes of elevated phosphorus levels; and another to find out why the water quality in the River Yeo downstream of Blagdon Reservoir is poor. The Blagdon water quality investigation is a jointly funded project with Wessex Water, Yeo Valley Farms and the Environment Agency and is another good example of partnership working.

Taken as a whole, our catchment management and environmental projects will make water cheaper to treat for Bristol Water and improve the environment for the local community.

“Our commitment to protecting biodiversity can be shown through a new measure we have developed called the “Biodiversity Index.”

Bristol 2015 European Green Capital

As an official supporter of this exciting programme and one of the principal businesses involved in the process since the city's first attempts to gain this prestigious award, we were able to give our water saving initiatives a Green Capital badge, contribute to a major shift in behaviour and attitudes to the environment, and help create a sustainable legacy.

Our most visible project was the installation of a new drinking fountain in one of Bristol's most popular landmarks, Millennium Square. The fountain was installed with the support of At-Bristol, an internationally renowned science visitor attraction. We created a glass portal in the ground showing the water main and smart meter technology below it.

The fountain has been adopted by At-Bristol long term, and we hope as a result to make a significant saving on plastic waste reduction while increasing the appreciation of tap water.

A less visible project we implemented for Green Capital Year was in partnership with UWE using four identical student blocks as a live lab to test water efficiency devices and behaviour to support facilities management and save costs. This experiment has produced masses of data that is being interpreted by many interested parties, including a team who have developed a computer game to engage students in the next stage. It has also resulted in significant savings for the university, which will be an interesting case study to share as we move into an open market for business.

“Our most visible project was the installation of a new drinking fountain in one of Bristol's most popular landmarks, Millennium Square.”

(BELOW)
OUR SPAWN TO BE WILD PROJECT, IN PARTNERSHIP WITH AVON WILDLIFE TRUST, ENABLES LOCAL SCHOOL PUPILS TO CARE FOR EELS BEFORE RELEASING THEM INTO THE WILD.



Employees & Suppliers

Employees

We need the best employees in order to achieve our goal to deliver an exceptional customer service and ensuring that our employees remain motivated and skilled in their roles is of paramount importance to us.

In 2014 we redesigned our appraisal process, enabling all staff to have an opportunity to review their performance and talk about development needs at least twice a year. We have a comprehensive view of all required training in our operational areas and update our systems so that we know what training is expected, when it was completed and when it is next due for all roles.

Our employee engagement surveys are carried out every three years and the next one is due in 2016. Engagement surveys are not a measure of happiness or satisfaction; they gauge employee sentiment around passion for and pride in their work, whether they believe in the vision of the organisation, and if their work is valued and their talents are well utilised. This year the engagement survey will be conducted after a period of major change and we will use the results to highlight areas that require additional focus to restore balance to the workforce, the business and our customers.

Improving communication across the entire business has been a key driver again this year. Ensuring the

workforce feel included and informed of company, industry and market news is a proven motivator. We are reviewing our communication to staff so that we continue to improve this area and also to further improve two-way communications. The weekly 'CEO Update' continues to be successful and provides regular insights into the key issues that the business is facing.

Suppliers

Providing a highly reliable water service is our core business so working closely with suppliers to assist us in delivering this service is key to our success.

Specialist contractors and suppliers help us deliver our capital and operating projects and these contractors/suppliers are selected because they have the same business ethos as us and we believe they will enhance the delivery of our service to our customers.

As part of the appointment process, contracting partners have to meet the rigorous cost and delivery criteria that we apply within our business and all our procurement procedures adhere to the EU Utilities Directive.

We have recently reviewed the way we work with self-lay organisations and have committed to change the structure and processes of our price and non-price terms when providing services to self-lay organisations (SLO),

who are able to bid for mains laying work for new developments. The changes include creating two separate functions, one retail facing and the other wholesale facing. This will ensure self-lay organisations are not being unfairly disadvantaged when it comes to connecting new developments. These changes will help effective competition which can deliver benefits for customers, offering choice and acting as a driver for more customer-focused, efficient and innovative services.

We are committed to being fair and effective in the way we work with all external suppliers and contractors in order to support the growth in the local economy.

“The weekly 'CEO Update' continues to be successful and provides regular insights into the key issues that the business is facing.”

Community

We aim to make a positive difference by supporting and promoting the wellbeing of communities and by behaving in a socially responsible manner.

Community engagement

The events team attended a wide variety of events to help increase Bristol Water’s visibility and contact within the community. From county shows in North Somerset and South Gloucestershire to the city’s vibrant Harbour Festival, the events were packed with our customers and we estimate that we would have had contact with approximately 6000 people. As well as promoting water efficiency, we also gave out free water at several events, providing water bowlers at seven city events in total. This not only provides a valuable hydration service and saves plastic waste, but also positions our product in the heart of the community. Additionally, we were able to speak to people directly affected by major works via our mobile exhibition vehicle.

Partnering with the community

We have worked with a wide range of local organisations on community projects, including Volunteering Matters and Avon Wildlife Trust. In 2015 we were a corporate partner to Bristol Museums, Galleries and Archives and through this sponsored the Wildlife Photographer of the Year and another popular show called ‘Wildlife, Camera, Action’. We were also the main sponsor of the Festival of Nature, an event that attracts over 35,000 visitors to central Bristol over a two-day period.

Fundraising

Bristol Water’s employees have continued their fundraising efforts this year, competing in a variety of challenges and volunteering for local charitable causes. We raised £14k for WaterAid with the Glastonbury Challenge, which was a tough 30 mile cross country hike to the Tor. We continue to support WaterAid’s annual appeal by including a promotional leaflet in with our bills, and this year five members of staff took on the Dry January Just Water challenge. We also recycle any scrap metal generated through the course of our business activities and donate the money raised to local charitable causes, and even two of our old vans got a new lease of life through donations to the local Wheels charity.

Luis Garcia

Chief Executive Officer
14 July 2016



£14,000

We raised £14k for WaterAid with the Glastonbury Challenge, which was a tough 30 mile cross country hike to the Tor.



35,000

We were also the main sponsor of the Festival of Nature, an event that attracts over 35,000 visitors to central Bristol.

A team of us hiked from Bristol to Glastonbury Tor to raise money for WaterAid, stopping for a photo at our Line of Works on the way.



Board of directors

(LEFT TO RIGHT) MICK AXTELL, ANTHONY HEMUS, MIQUEL ANGLADA, MICHAEL SMERDON, TIM TUTTON, KEITH LUDEMAN, PAUL MALAN, LUIS GARCÍA, CHRIS CURLING, ROBERT DAVIS, HAJIME ICHISHI.



Mick Axtell | Age 44
Chief Financial Officer

Mr Axtell was appointed to the Board on 30 January 2014. He joined the Company in September 2013 as Deputy Finance Director and was appointed Finance Director in January 2014. On 24 November 2015, Mr Axtell was appointed Chief Financial Officer. Prior to joining the Company he held a number of senior finance roles at RWE, one of Europe's leading electricity and gas companies.

Anthony Hemus | Age 59
Independent Non-Executive, Chairman of ARAC, Member of Nomination and Remuneration Committees

Mr Hemus joined the Board on 1 April 2016 as an independent non-executive director. He was an audit partner at PricewaterhouseCoopers for 23 years and, for the final 4 years of his career, was one of the two National

Risk and Quality Partners for the Audit and Assurance section of the firm. He retired from PricewaterhouseCoopers on 30 June 2013.

Miquel Anglada | Age 42
Non-Executive, Member of Nomination and Remuneration Committees

Mr Anglada re-joined the Board as a non executive director on 24 March 2016, having been Finance Director between 2009 and 2014. Mr Anglada is CFO of Suez Advanced Solutions and has been with Suez since 1999.

Michael Smerdon | Age 45
Non-Executive, Member of ARAC

Mr Smerdon is the Executive Vice President and Chief Financial Officer of Capstone Infrastructure Corporation. He was formerly Managing Director of Macquarie Infrastructure and Real Assets Canada Limited. Mr Smerdon joined

the Board on 5 October 2011.

Tim Tutton | Age 68
Non-Executive, Member of Nomination and Remuneration Committee and ARAC

Mr Tutton was appointed to the Board in January 2015. He is an economic consultant specialising in economic regulation, especially in the energy sector. Currently a Panel Member at the Competition and Markets Authority. His previous roles have included 'UK Director of Regulation' at National Grid and 'Director of UK Utility Regulation' at PricewaterhouseCoopers.

Keith Ludeman | Age 66
Non-Executive Chairman, Chairman of Nomination Committee

Mr Ludeman was appointed to the Board in July 2012. He is a non-executive director of Eversholt Rail UK limited, Interserve plc and Aspin Group Limited. During the year,

Note: BWH (formerly known as Bristol Water Holdings plc), was the former listed holding company of the Company.

he was appointed Non-Executive Chairman at TXM Plant Limited. He is also a director of London Transport Museum Limited. Formerly he was Chief Executive Officer of Go-Ahead Group plc and has forty years' experience in the transport industry.

Paul Malan | Age 46
Non-Executive

Mr Malan is the Senior Partner of iCON Infrastructure LLP, an independent infrastructure investment firm which he founded in 2011. Mr Malan has over 20 years of experience in infrastructure advisory and investment at iCON Infrastructure LLP, Deutsche Bank and Macquarie Bank. He was appointed to the Board on 7th July 2016.

Luis García | Age 51
Chief Executive Officer, Member of Nomination Committee

Mr García was appointed to the Board in January 2009 initially as a non-

executive director. He joined Agbar in 1989 and has held a number of senior positions. He was appointed Chief Executive Officer of the Company on 1 April 2009.

Chris Curling | Age 66
Independent Non-Executive, Chairman of Remuneration Committee, and Member of Nomination Committee and ARAC

Mr Curling was appointed to the board in 2004. A corporate lawyer by background, he was for 15 years either Chief Executive or Executive Chairman of Osborne Clarke. For the past twelve years he has sat on the boards of a number of listed and private companies. He has several appointments in the Bristol regional voluntary sector.

Robert Davis | Age 68
Independent Non-Executive, Member of Nomination and

Remuneration Committees and ARAC

Mr Davis was appointed to the Board in November 2008. He has a mechanical engineering background, having worked with Rolls Royce before moving to the packaging industry, where he had Managing Director roles in both the UK and the USA. Mr Davis is also a non executive director at Thatcher's Cider Company Limited.

Hajime Ichishi | Age 41
Non-Executive

Mr Ichishi is Deputy Manager of the ITOCHU Corporation of Japan, responsible for development of ITOCHU's global water and environment sector project. He has held various senior positions within the Itochu group. He is also a non-executive director of Canaragua Concesiones, S.A. He was appointed to the Board on 10 May 2012.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2016.

Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 14 to 49.

The total dividend paid during the year ended 31 March 2016 was 53.4p (2014/15: 224.8p) per ordinary share. The Board has proposed a final dividend of £1m in respect of the financial year 2015/16 (2014/15: £nil). The Company's practice for dividends to shareholders is contained in the Strategic Report on page 41.

Capital structure

Details of the issued share capital are shown in notes 18 and 25. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

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

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

GOING CONCERN

As detailed in the Corporate Governance Report on page 83, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

FINANCIAL RISK MANAGEMENT

Details of financial risks faced by the Company and the related mitigating factors are included in note 21 to the financial statements.

DIRECTORS AND THEIR INTERESTS

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

- K Ludeman, Chairman
- L Garcia, Chief Executive Officer
- M Axtell, Finance Director
- A Hemus, Independent Non-Executive
- M Anglada, Non-Executive-Executive
- M Smerdon, Non-Executive
- T Tutton, Non-Executive
- P Malan, Non-Executive
- C Curling, Independent Non-Executive
- R Davis, Independent Non-Executive
- H Ichishi, Non-Executive

Mr Curling will offer himself for re-election and Messrs Hemus, Anglada and Malan will offer themselves for election at the AGM.

Service contracts

All current executive directors have service contracts with 12-month notice periods.

Other interests

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

The interests in shares and other contracts of Messrs Bernstein and Smerdon with other companies within the Capstone group are not disclosed within this report.

The interests in shares and other contracts of Messrs García, Anglada and Harding with other companies within the Agbar or Suez groups are not disclosed within this report.

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

ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The details of ultimate parent company and controlling party, and the smallest and largest group in which this company is consolidated, are provided in note 28 to the financial statements.

RESEARCH AND DEVELOPMENT

The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2014/15: £0.1m).

FINANCIAL INSTRUMENTS

The details of the financial instruments are provided in note 20 to the financial statements.

INSTRUMENT OF APPOINTMENT AND REGULATORY ACCOUNTS

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

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

EMPLOYEES

Information on employment policies and practices is contained within the 'Best people right culture' part of the Strategic Report on pages 34 to 37.

ENVIRONMENTAL MATTERS

Information on environmental matters and KPIs are contained within the 'Environmentally sustainable' part of the Strategic Report on pages 28 to 31.

OUTLOOK

Commentary on the main drivers of future profitability is contained in the Strategic Report on page 49.

THE STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

As required by the UK Corporate Governance Code and the Bristol Water Code, the directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Chief Financial Officer;
- communications to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Report are undertaken by the executive directors and other senior management; and
- the final draft is reviewed by the ARAC prior to consideration by the Board.



Directors' report

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

Each of the directors, whose names and functions are listed on page 66 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in conformity with Financial Reporting Standard 101, give a true and fair view of the assets, liabilities, financial position and profit

of the Company; and

- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 70 to 83. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

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

Stephen Robson
Company Secretary
14 July 2016

FINANCE DIRECTOR MICK AXTELL AND
FINANCE ASSISTANT ALBA ACERO.



Corporate governance report

Introduction

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

Ofwat, our economic regulator, also enforces the same approach in its publication on the principles of Board Leadership, Transparency and Governance, the "Ofwat Principles".

We have fused together these Ofwat principles and the UK Corporate Governance Code into our code of corporate governance ("the Code"), available on our website. During the year, Ofwat has set out a new requirement for a viability statement which we have complied with and which is detailed on page 48 to 49.

We detail below how, in practice, the Company has applied its code of corporate governance, comprising the Code and the Ofwat principles. The Board considers that it complies with all of the requirements of its code of corporate governance.

Board and Board committees

THE CHAIRMAN

The Chairman, who is a non-executive director independent upon appointment, is responsible for the leadership of the Board and for its effectiveness. He sets the agenda for the Board meetings, providing adequate time for each agenda item. He is responsible for the culture of the boardroom which is one of openness and debate encouraging, in particular, the effective contribution of non-executive directors.

NON-EXECUTIVE DIRECTORS

The non-executive directors monitor the performance of the executive directors and management, and form the majority of the members of three key Board committees, namely:

- ARAC which reviews the integrity of financial information, financial controls and risk management;
- Remuneration Committee which reviews Company remuneration policy and Executive remuneration packages; and
- Nomination Committee which oversees the Board composition and succession planning.

The Board membership means that the Board is compliant with the Ofwat Principles which require that:

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

A copy of the terms and conditions of appointment of non-executive directors are available to shareholders by writing to the Company Secretary, Mr Robson.

At 26 May 2016 the Board of Bristol Water plc (the "Board") comprised the Chairman (a non-executive director), two executive directors and nine other non-executive directors. Five of the non-executive directors are, in the opinion of the Board, independent. Messrs Curling and McIlwraith have both served for more than nine years on the Board, and the Code requires the Board to specifically assess that these directors are independent of the executive as a result of this fact. That assessment has been carried out by the Board and the Board believes that this time served has not caused the two directors to cease to

be independent. The assessment has been made by the Board based on its views of their performance on the Board and taking into account their experience and character. Mr McIlwraith retired from the Board on 31 May 2016.

Tony Hemus was considered to be independent of the management of the company on his appointment having not been involved with Bristol Water before or in the audit at Bristol Water despite his role as a partner at PwC, the Company's auditors. Given that Tony Hemus retired in June 2013 he was a partner at PwC for a two month period during the three years prior to his appointment. However this was not viewed as being a factor affecting his independence.

The independent non-executive directors constructively challenge and help develop proposals on strategy and bring independent judgement, knowledge and experience to the Board's deliberations. The independent directors are of sufficient calibre and number to ensure that their views carry significant weight in the Board's decision making.

The recruitment process carried out during the year for Tony Hemus was conducted by an external independent firm, Moon Consulting, in conjunction with a team appointed by the Nomination Committee consisting of the chairman and Mr García. Mr Hemus was appointed with effect from 1 April 2016. Details of Mr Hemus's background and

experience are mentioned on page 64.

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

The directors are provided with appropriate, accurate and relevant financial and operational information necessary for them to discharge their duties. The management information is prepared by senior management of the Company and produced on a timely basis for consideration and review by the directors. Clarification, amplification and specific updates are provided as requested by directors. Senior managers periodically attend the Board to provide appropriate levels of information on key issues. The Company Secretary is responsible for the provision of legal guidance and support as and when appropriate and on corporate governance matters. In furtherance of its duties, there are agreed procedures for the directors to take independent professional advice, if necessary, at the Company's expense. All directors have access to the advice and services of the Company Secretary. The appropriateness of the information received is reviewed as part of the Board evaluation process carried out annually.

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

Review of the Board performance

The Board performs an annual review of its performance and considers this to be sensible part of good corporate governance. Following an external independent evaluation of the Board and its committees' performance in 2013/14, the Board has conducted an internal evaluation of its performance including that of its committees and individual directors. Each director was asked to answer a suite of questions on performance devised for the Company which included areas of corporate governance. The results were considered at the July 2016 board meeting.

The Company is privately owned and representatives of each shareholder are Board members thus there is good face to face on-going contact during the year and at Board meetings.

The non-executives met without the executive directors present on 26 November 2015, 2 February 2016 and 24 March 2016.

Such interaction ensures that the members of the Board, and in particular the non-executive directors, develop an understanding of the views of shareholders.

The following table sets out the attendance of directors at the Board and committee meetings during the year:

	Number of meetings					
	Board meetings attended (maximum 9)	Maximum possible during appointment period	Percentage attendance during appointment period	ARAC meetings (maximum 4)	Remuneration Committee meetings (maximum 7)	Nomination Committee meetings (maximum 4)
K Ludeman , Chairman	9	9	100%			4
L García , Chief Executive Officer	9	9	100%			4
M Axtell , Chief Financial Officer	9	9	100%			
M King , Regulatory Director (resigned 31 December 2015)	7	7	100%			
P McIlwraith , Non-Executive (retired 31 May 2016)	9	9	100%	4	7	4
C Curling , Non-Executive	8	9	89%	3	6	3
R Davis , Non-Executive	8	9	89%	4	7	4
T Tutton , Non-Executive	9	9	100%	4	7	4
M Bernstein , Non-Executive	9	9	100%		7	4
M Smerdon , Non-Executive	9	9	100%	4		
A Harding , Non-Executive (retired 24 March 2016)	9	9	100%		7	4
H Ichishi , Non-Executive	9	9	100%			
M Anglada , Non-Executive (appointed 24 March 2016)	0	0	0%			
T Hemus , Non-Executive (appointed 1 April 2016)	0	0	0%			

In accordance with an approved scheme of delegation, the Board delegates day-to-day and business management control to the executive directors.

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. The Board has also appointed Mr Tutton as the senior independent member of the Board on the retirement of Mr McIlwraith on 31 May 2016 and in the event that an individual does not wish to raise a concern with the Chairman, such concerns may be raised with Mr Tutton.

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

Audit and Risk Assurance Committee (“ARAC”)

The ARAC’s terms of reference include the points recommended by the Code. Its duties include monitoring internal controls, approving the accounting policies and reviewing the interim and annual financial statements before submission to the Board. The Committee, previously chaired by Mr McIlwraith until his retirement on 31 May 2016, is currently chaired by Mr Hemus, independent non-executive director, and currently comprises three other independent non-executive directors Messrs Curling, Davis and Tutton, and non-executive director Mr Smerdon. On the retirement of Mr McIlwraith, Mr Hemus is the only qualified accountant in the Committee. The external auditors attended all meetings during the year and the internal auditors report to this Committee on a regular basis.

The Committee is formally constituted with terms of reference which includes review of whistleblowing arrangements. A copy of the terms of reference is available to shareholders by writing to the Company Secretary, Mr Robson.

Areas of management judgements considered by the Committee

The Committee reviewed the financial statements along with the areas of significant management judgement and other significant financial matters. In forming their view on the appropriateness of accounting treatment and disclosures in relation these areas of management judgement and financial matters, the Committee considered:

- Specific factors in relation to individual judgements and matters included in the following tables,
- assurance from the internal audit procedures, and effectiveness of the internal control environment of the Company.



Financial Judgement	How the Committee addressed the judgement
<p>Pension surplus valuation</p> <p>Pension arrangements for the Company's employees are provided partly through the Company's membership of the WCPS, which provides defined benefits based on final pensionable pay.</p> <p>Due to the nature of the benefit, the amounts recognised in the financial statements which are based on the principles set out in IAS19, involve significant judgements around the assumptions including:</p> <ul style="list-style-type: none">• longevity estimation for scheme members,• rate of return on the scheme assets,• calculation of the present value of pension liability,• tax deduction, and• other demographic factors. <p>During the year, Bristol Water closed its two sections of the Water Company Pension Scheme to future accrual at 31 March 2016. The two sections are defined benefit schemes and members of these schemes became 'deferred' members on closure. A curtailment gain of £3.1m was reported in the Financial Statements due to the net impact of these changes.</p> <p>Accordingly, accounting for pensions is regarded as a key judgemental area.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none">• The calculations for determining the pension position performed by an independent and qualified actuary in accordance with the principles of the accounting standard (IAS19).• An assessment of the degree of prudence within these assumptions.• The last funding valuation performed as of 31 March 2014 which required a more detailed review of the key actuarial assumptions by the actuary.• Tax was deducted at 35% on the basis the surplus is recoverable by the company.• A curtailment gain was recognised during the year, following the closure of the scheme to future accrual.
<p>Bad debt provision</p> <p>Amongst utilities, water companies are in a unique situation whereby they have a statutory duty to supply customers, but no statutory power, in case of non-recovery of the water bills, to cut-off supply of domestic water users. This contributes to a higher level of bad debt in the water industry compared to other utilities despite the fact that water bills generally cost less than other utilities.</p> <p>The calculation of bad debt provision is based on estimation of collection rates in future years, and therefore involves a degree of management judgement as to the appropriateness of the provision level relative to the debtor balances.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none">• The Committee has reviewed the key aspects of the calculation and has had detailed discussions with the management on the basis for judgement applied for the bad debt provision.• The method of calculation is considered to be sufficiently prudent. All debt that is over four years old is fully provided for, and the provision for the amounts less than four years old, follows a systematic approach based on the historic collection rates, adjusted for any known economic factors.• The judgement applied by the management is considered appropriate and functions as a bridge between the provision calculation based on historic collection rates, and the recent collection trends and economic factors.• The underlying collection and debtor balances information, used for the calculation of the provision, is provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to collate this information.

Financial judgement	How the Committee addressed the judgement
<p>Accounting for expenditure on infrastructure assets</p> <p>The Company owns a network of mains and associated underground pipework, and impounding and pumped raw water storage reservoirs. These assets are collectively called 'Infrastructure assets'.</p> <p>Depending on the nature of the underlying work, expenditure on infrastructure assets is either capitalised as addition to fixed assets or treated as operational cost in the Profit and Loss Account.</p> <p>Given the size and complex nature of the capital programme, the accounting for infrastructure projects involves significant management judgement.</p> <p>The approach to the key judgements under FRS101 is different to UKGAAP.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none">• The nature of capital projects is reviewed by the Capital Planning and Finance teams to determine their accounting treatment.• There are robust processes and controls to appropriately allocate staff time between work on capital and operational projects.• Management perform quarterly reviews of the actual financial performance versus budget which helps identify anomalies in accounting treatment of infrastructure projects.

Other significant financial matters considered by the Committee

Financial matter	How the Committee addressed these matters
<p>Revenue recognition</p> <p>Based on the number of properties, approximately 50% of our customers have a water meter installed at their properties. Meters for the majority of the customers are read on a six monthly basis.</p> <p>Therefore at the end of the year an estimation of water consumed by the customers, over the period between their last meter reading date and the year-end date, is made and an income accrual recognised accordingly.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none">• The income accrual is based on historic metered volumes, calculation of consumption not billed, and the applicable tariffs.• Underlying data is provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to calculate the accrual.• The accrued income amounts and supporting reports are reviewed for reasonableness by the Company's management.

The Committee is of the view that the accounting treatment and disclosures in relation to the areas of management judgement and other significant financial matters considered above are appropriate.

Going Concern

Management continues to prepare accounts on a going concern basis. More details are set out in the Viability Statement included in the Strategic Report on pages 48 to 49.

Corporate governance report (cont.)

External auditors

The ARAC is responsible for the development, implementation and monitoring of the Company's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the ARAC, and day-to-day responsibility to the Chief Financial Officer. It states that the external auditors are jointly responsible to the Board and the ARAC and that the ARAC is the primary contact. The policy also sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Company, subject to de minimis levels.

To fulfil its responsibility regarding the independence of the external auditors, the ARAC reviewed:

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

To assess the effectiveness of the external auditors, the ARAC reviewed:

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

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

External audit tendering

PricewaterhouseCoopers LLP became the Company's auditors in 2012. As a Public Interest Entity with debt listed on the London Stock Exchange, the Company will, in future, be subject to the mandatory auditor rotation requirements of the European Union. Subject to the detailed implementation of the European requirements in the UK, this is likely to mean that the Company will put the external audit out to tender at least every ten years, and change auditors at least every twenty years. The ARAC will, however, continue to consider annually the need to go to tender for audit quality or independence reasons. These measures will also mean the Company complies with the UK Corporate Governance Code provision that the external audit should be put out to tender at least every ten years. The detail of auditors' remuneration is provided in note 7d of the financial statements.

Internal auditors

The ARAC is required to assist the Board to fulfil its responsibilities relating to the adequacy of the plans relating to the internal auditors. To fulfil these duties the Committee reviewed:

Internal Audit's terms of reference and access to ARAC and all members of the Board;
Internal Audit's plans and its achievement of the planned activity; and
the results of key audits and other significant findings, management's responses thereto, and the timeliness of resolution.

Remuneration Committee

The role and composition of the Remuneration Committee is set out in the Remuneration Committee Report on page 85.

Nomination Committee

Under the chairmanship of Mr Ludeman this committee has the task of recommending new appointments to the Board, reviewing re-appointments when they become due and undertaking annual performance evaluations of the Board Members. Before making an appointment the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. It also reviews the structure, size and

composition of the Board and makes recommendations to the Board with regard to any changes. Mr Ludeman will not chair this committee if it discusses the performance of the chairman or the appointment of a new chairman of the Board. Its current membership comprises Messrs Ludeman, Curling, Davis, Tutton, Garcia, Bernstein, Hemus and Anglada.

The Committee met during the year to discuss succession planning for the non-executive directors.

In accordance with the Code the Committee reports that the Board has a 'Board Diversity Policy' which confirms that the Board is committed to:

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

Currently there is no female representation at the Board level. In our workforce of 428 at 31 March 2016 around 28% (2015 - 27%) were women. Whilst in senior/middle management executive positions the female

representation was around 29% (2015 - 25%). The Nomination Committee has reviewed and monitored compliance with the Board Diversity Policy and is of the view that the Board Diversity Policy is complied with.

Modern Slavery Act

Bristol Water plc strongly opposes slavery and human trafficking, and would never knowingly conduct business with suppliers or contractors engaged in such practices. We serve a population of 1.1 million people and all the associated businesses in an area of 2,400 square kilometres (1,000 square miles) centred on Bristol.

We have several key contract partners who work with us to help us deliver services for our customers in our supply chain including amongst others Bristol Wessex Billing Services, Kier Services and Wipro. They and our other suppliers know we require our contractors and suppliers to comply with the Modern Slavery Act 2015 (the "Act"), and that we will not continue to purchase goods or services from any supplier that is found to be engaging in human trafficking or using slave labour.

Bristol Water does, and will continue to, review its own operations and supply chain to evaluate human trafficking and slavery risks. At present this is done internally. Bristol Water also includes compliance with the Act as a requirement before entering

new agreements with contractors or suppliers.

Bristol Water has provided training to its procurement staff on this topic, all of whom are aware of the risks of human trafficking and slavery, and Bristol Water's obligations under the Act. The training materials are made available to all in the company.

Currently, Bristol Water considers there to be no evidence of slavery and human trafficking within its own operations, and low risk in those of its suppliers and contractors.

Commitment

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

Directors disclose their other commitments at the time of appointment. Further updates are made as required, if a non-executive director takes any additional commitment. Executive Directors do not hold any non-executive directorships.

Induction and training of directors

New directors receive appropriate induction on their appointment to the Board covering the activities of the Company and its key business and financial risks, the terms of reference of the Board and its committees and the Company’s latest financial information.

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

Retirement and re-election of directors

All directors are subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years.

All non-executive directors who have been directors for nine years or more need to offer themselves for re-election at each annual general meeting.

On 29 April 2016, Capstone Infrastructure announced the successful completion of its sale to iCON Infrastructure Partners III, L.P. (“iCON III”), an English limited partnership with 37 limited partner investors comprising, inter alia, international pension funds, asset manager and insurance companies. The largest limited partner in iCON III represents c. 8% of the aggregate investment commitments to iCON III. The managing general partner of iCON III is iCON Infrastructure Management III Limited (“iCON”). Accordingly Bristol Water’s ultimate

holding entity is now iCON III since iCON III indirectly owns Capstone Infrastructure Corporation (“Capstone”). Capstone has preference shares listed on the Toronto Stock Exchange and complies with the corporate governance requirements of that exchange and Canadian securities regulations as well as publishing its own corporate governance guidelines on its website.

iCON has, in its capacity as managing general partner of iCON III, been made aware of Ofwat’s “Board leadership, Transparency and Governance - Holding Company Principles” published in April 2014 which set out Ofwat’s expectations for holding companies of regulated water companies to show their adherence to the highest standards of corporate governance. This section of the annual report addresses these Holding Company Principles and a note will go on the Bristol Water website noting the compliance with these principles and cross referring to this report where necessary.

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

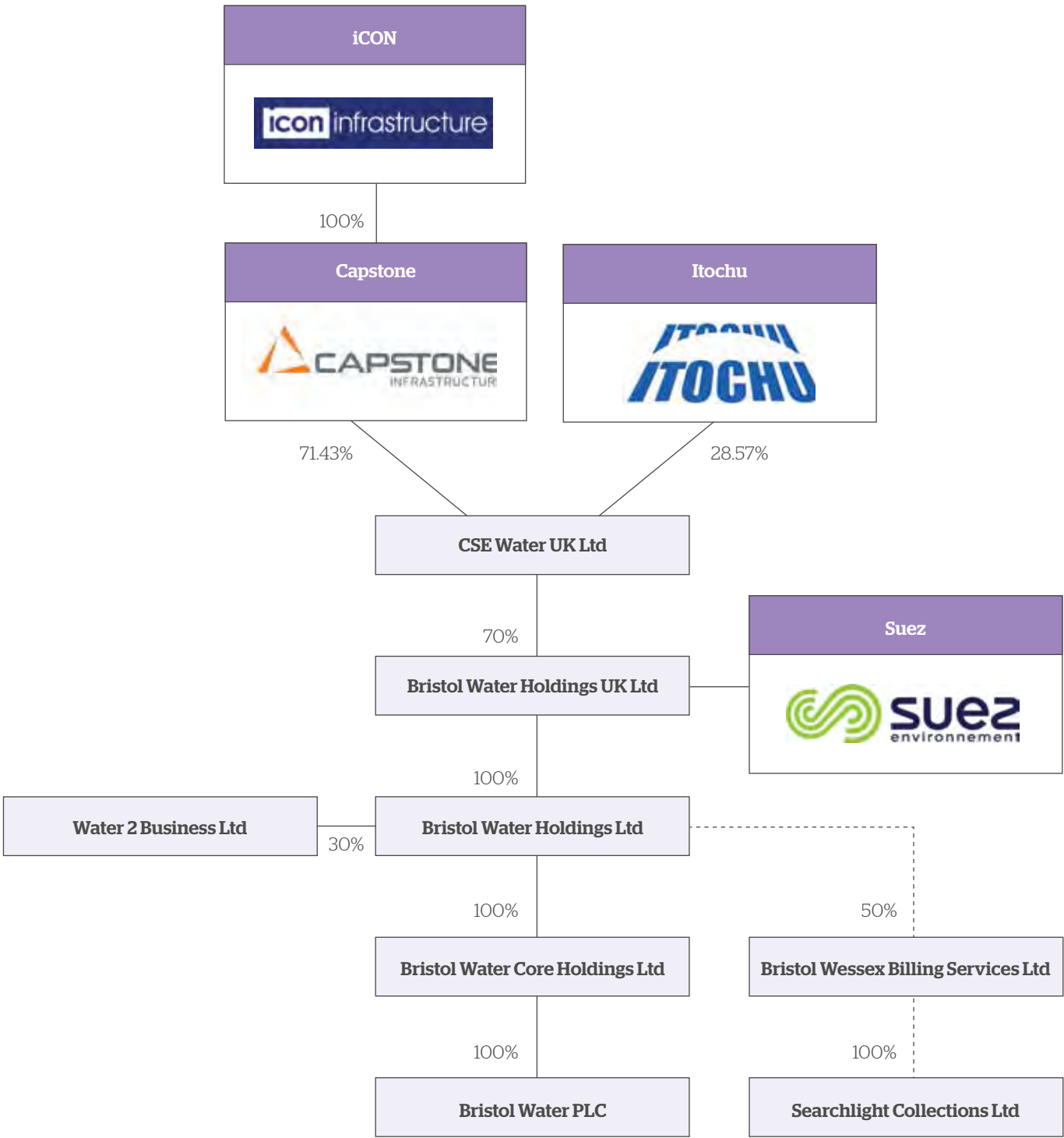
iCON has confirmed, on behalf of iCON III in its capacity as managing general partner of iCON III, as follows: it has been briefed on Bristol Water’s duties under the Water Industry Act 1991 and the licence;

- it is aware of and will comply with the terms of the Condition P Undertaking, including:
 - its obligation to provide all such information as may be necessary to

enable Bristol Water to comply with the requirements of the conditions of its appointment as a water undertaker; and

- it will refrain from any action which would or may cause Bristol Water to breach any of its obligations under the Water Industry Act 1991 or the conditions of its appointment as a water undertaker;
- it will provide Bristol Water with the information it needs to assure itself that Bristol Water is not at risk from the activities of the wider Bristol Water group;
- it will disclose to Bristol Water details of any issue identified by its directors in respect of the Bristol Water group that might materially impact upon Bristol Water so that Bristol Water can take all appropriate steps;
- it will facilitate the ability of Bristol Water to meet the requirements of its own Code of Corporate Governance; and
- it will support Bristol Water’s ability to make strategic and sustainable decisions in the long term interests of the Company.

The chart below sets out the corporate structure and the table following the chart lists the relevant directors, all of whom have given appropriate disclosure of their interests.



iCON Infrastructure Partners III, LP - Limited Partnership registered in Guernsey	
No Designated Members Managing General Partner - iCON Infrastructure Management III Limited	
Altyerre Coöperatief U.A - iCON infrastructure Partners III, LP own 99% and iCON III Guernsey Limited own 1%	
Directors Iain Macleod Leo Kuipers	<ul style="list-style-type: none">• Incorporated in Netherlands
Altyerre Capital BV - Wholly owned by Atyerre Coöperatief	
Directors Iain Macleod Leo Kuipers	<ul style="list-style-type: none">• Incorporated in Netherlands
Irving Infrastructure Corporation - Wholly owned by Atyerre Capital B.V	
Directors Paul Malan Enis Moran Gary Eade	<ul style="list-style-type: none">• Incorporated in British Columbia
Capstone Infrastructure Corporation - Wholly owned by Irving Infrastructure	
Directors V. James Sardo (resigned 29 April 2016) Francois Roy (resigned 29 April 2016) Goran Mornhed (resigned 29 April 2016)) Jerry Patova (resigned 29 April 2016) Janet Woodruff Richard Knowles Michael Bernstein Adèle Malo (appointed 29 April 2016) Paul Malan (appointed 29 April 2016) Gary Eade (appointed 29 April 2016) Enis Moran (appointed 29 April 2016)	<ul style="list-style-type: none">• Incorporated in British Colombia, Canada• Quoted on the Toronto Stock Exchange
CSE Water Limited - MPT Utilities Water Limited owns 71.4% and Itochu owns 28.6%	
Directors Hajime Ichishi Michael Bernstein Michael Smerdon Waleed Elgohary (appointed 1 October 2015 and resigned 10 May 2016) Paul Malan (appointed 10 May 2016)	<ul style="list-style-type: none">• Incorporated in England & Wales• Holding Company

Bristol Water Core Holdings Limited - Wholly owned by Bristol Water Holdings Limited	
Directors Hajime Ichishi Michael Bernstein Michael Smerdon Waleed Elgohary (appointed 1 October 2015 and resigned 13 May 2016) Miquel Anglada (appointed 1 October 2015) Paul Malan (appointed 13 May 2016)	<ul style="list-style-type: none">• Incorporated in England & Wales• Holding Company
Bristol Water plc - Wholly owned by Bristol Water Core Holdings Limited	
Directors Details of directors are on pages 64 to 65	<ul style="list-style-type: none">• Incorporated in England & Wales• Holds Water Undertaker Licence under Water Industry Act 1991
Bristol Wessex Billing Services Limited - Bristol Water Holdings Limited owns 50%	
Directors Colin Skellet Andrew Pymer Luis Garcia Ben Newby	<ul style="list-style-type: none">• Incorporated in England & Wales• Joint Venture Billing Company
Searchlight Collections Limited - Wholly owned by BWBSL	
Directors Alex Chapman Lynne Stephens	<ul style="list-style-type: none">• Incorporated in England & Wales• Debt Collection company
Water 2 Business Limited - Bristol Water Holdings Limited owns 30%	
Directors David Elliott (appointed 14 May 2015) Anthony Reed (resigned 29 April 2016) Colin Skellett (resigned 29 April 2016) Andrew Pymer (resigned 28 May 2015) James Rider (resigned 28 May 2015) Mohammed Siddiq (appointed 29 April 2016) Christopher Chambers (appointed 29 March 2016) Luis Garcia (appointed 14 March 2016) Ben Newby (appointed 14 March 2016)	<ul style="list-style-type: none">• Incorporated in England & Wales• Non Household Retailer

Promoting water efficiency at the Bristol Harbour Festival.



Internal control

The Company has complied and continues to comply with the Code provisions on internal control having established the procedures necessary to implement the guidance issued in September 1999 (the Turnbull Committee report) and by regular review and reporting in accordance with that guidance.

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

The Board encourages a culture of risk identification and management across all aspects of the business, and uses the following main processes to review the effectiveness of the system of internal control:

The executive directors:

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

The Company operates through a formal board structure, which:

- considers material financing and investment decisions;
- reviews the role of insurance in managing risks;
- reviews and approves financial budgets and emerging financial results; and
- reviews on a regular basis detailed Key Performance Indicator reports, which include the identification of material

risks and the actions taken to manage such risks.

The ARAC:

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

The Board:

- monitors compliance with the obligations of the Company under its licence as a water undertaker;
- considers material financing and investment decisions including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk;
- reviews on a regular basis a summary KPI report which includes the identification of material risks and the actions taken to manage such risks;
- reviews the effectiveness of the risk management process and significant risk issues; and
- reviews and approves financial budgets and emerging financial results.

The Board undertook formal assessments of risk management and control arrangements including the risk register on 7 July 2016 and concluded that the overall internal control framework was working effectively. The review included an assessment of the effectiveness of internal controls within the group's joint venture, BWBSL.

Directors' responsibilities in respect of the Annual Report

The statement of the directors in respect of the Annual Report, and the statement of directors' responsibilities are contained within the Directors' Report on page 67.

Going concern

In assessing the going concern basis, the directors have considered the cash flow and financial ratios projections of the company for the foreseeable future.

The key risks to the company are regulatory requirements and developments, operational events and performance problems. The company is well placed to respond to the near future events, with cash of £18.0m available and committed borrowing facilities of £70m as at 31 March 2016.

The company is not immune to the continuing financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver the current and future capital programmes. The Directors have considered the viability of the Company in accordance with the requirements for a viability statement which can be found on pages 48 to 49.

The directors report that, after making enquiries, they have concluded that the company has adequate resources or the reasonable expectation of raising further resources as required to continue in operation for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the accounts.

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

Stephen Robson

Company Secretary
14 July 2016

Remuneration Committee report

Introduction

This Remuneration Committee report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006 and in line with the regulations issued by the Department for Business, Innovation and Skills (“BIS”) governing the content of remuneration reports.

The Board has reviewed the Company’s compliance with its Code on remuneration-related matters. It is the opinion of the Board that the Company complied with all remuneration-related aspects of its Code during the year.



Key matters

The year under review has been challenging for the Company, delivering on the AMP6 programme for our customers post the PR14 process and the CMA referral.

This section summarises the key matters considered by the Remuneration Committee (“the Committee”) during the year.

- During the year the Committee considered whether its decision that there be no increase in base salaries for any employee for the year 2015/16 should be changed. No change was made.
- Due to the CMA process and its late outcome, the Company did not during the year propose a bonus scheme for 2015/16 as set out in Bristol Water plc Annual Report 2015. The final year end outcome has enabled a form of bonus to be paid based on individual employee performance. The Chief Executive Officer’s bonus is 21% of salary and the other executive director earned a bonus of 30% of salary. The Committee determined that this level of bonus was appropriate, reflecting the performance against the Company’s strategic and business objectives during the year.
- A review of the impact of inflation on salaries was conducted in 2015/16 resulting in a proposed 0.6% increase in base salary as of April 2016 for all employees, including the executive

directors and non executive directors, where contractually applicable.

- The Committee gave extensive consideration to the objectives and targets of the Company’s annual bonus scheme for 2016/17, in which all employees will participate during the year.
- The Bristol Water sections of the Water Companies Pension Scheme (“WCPS”) were closed to future accrual with effect from 31 March 2016. The Company continues to operate a company stakeholder (defined contribution) scheme and previous members of the WCPS have automatically been enrolled in the stakeholder scheme.
- The Committee reviewed the remuneration of the Chairman in the context of the duties performed by him.
- The possible creation of a long-term incentive plan for the AMP6 period remained under review.

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

Role and composition of the Remuneration Committee

The Committee makes recommendations to the Board both on the overall remuneration policy and levels for the Company’s employees, and on the remuneration and other employment conditions of the executive directors and senior executives of the Company, in consultation with the Chairman and/or CEO as appropriate.

The membership of the Committee during the year comprised:

Mr Curling (Chairman), Mr Davis, Mr McIlwraith (retired 31 May 2016), Mr Bernstein, Mr Harding (retired 30 March 2016) and Mr Tutton.

Attendances at Committee meetings are set out on page 72 in the Corporate Governance Report.

The Committee is formally constituted with written terms of reference. A copy of the terms of reference has been provided to all equity shareholders and is available on the Company’s website.

During the year Luis García (Chief Executive Officer), Fay Crompton/ Rhian Langham (respective Heads of HR) and Stephen Robson (Company Secretary) provided material advice and services to the Committee. Guidance was also obtained from Towers Watson to support decisions on the Company’s grading structure and remuneration

policies. No director played a part in any discussions about his own remuneration. No Committee member has any personal financial interest or conflict of interest arising from cross-directorships or from day-to-day involvement in running the business.

Remuneration policy

Executive remuneration policy

The key principle underpinning remuneration policy is to offer remuneration packages which can attract, motivate and retain directors and senior managers of the calibre needed to execute the Company’s business strategy, which is important for the delivery of a consistently high quality service to customers and a sound, sustainable financial performance.

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

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2014/15
Salary	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Factors taken into account when determining basic annual salary levels are objective research, the individual executive director's performance during the year and pay and conditions throughout the Company. Salaries are reviewed at the discretion of the Committee and are not subject to formal annual review.	Base salary increases are applied in line with the outcome of any reviews conducted by the Committee.	Introduced a consistent and robust role grading methodology which is aligned to salary and total remuneration benchmarking survey data from a market leading provider. This is in line with the Company wide policy.
Annual bonus	Drives and rewards performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes.	Based on the achievement of four balanced elements: customer service, financial, operational and health and safety targets; and an overall assessment of personal performance and achievement of individual objectives. The same business objective targets are applied to all staff who receive bonuses. The customer service and operational targets are set around measurable outcomes which the Company believes are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the Ofwat customer service measure, the SIM. Bonus scheme targets are set annually.	Maximum of 30% of base salary (save in exceptional circumstances).	New bonus structure for 16/17 and an interim bonus structure for 15/16.
LTIP	Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives. Align executive directors' long-term interests with those of customers, long-term shareholders and other stakeholders.	The LTIP is based not upon total shareholder return but upon long-term strategic goals of the Company, including customer outcomes. The LTIP award benefit is based on one third of the final base salary at 31 March 2015, the number of years for benefit accrual and the percentage achievement of the performance conditions of the scheme.	As disclosed below.	No scheme covering AMP6 performance has been proposed to date.
Pension	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Pension contributions are made to personal or the Company stakeholder schemes at a specified percentage of basic salary.	N/A	None.
Benefits	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Reflecting market practice and comprising the provision of a company car and private medical insurance. Some expatriate benefits provided to Mr García are not borne by the Company. The expatriate benefits include free furnished accommodation, utilities, tax advice and private school fees where appropriate.	N/A	None.

Long-term incentive and share option schemes

The Company has previously operated an LTIP scheme for AMP5, which aimed to incentivise the executive team to align their long-term interests with those of customers, long-term shareholders and other stakeholders.

Currently there is no LTIP in place for AMP6; however this arrangement is under review.

There is no share option scheme.

Service contracts

Details of the employment contracts of the executive directors at the end of the year are as follows:

	Contract date	Notice period	Unexpired term
L Garcia	23 April 2009	1 year	rolling 1 year
M Axtell	11 November 2015	1 year	rolling 1 year

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

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

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

Remuneration policy for new appointees to the executive team

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

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

The remuneration of the non-executive directors is determined by the Board and is based on market evidence of fees paid to non-executive directors in companies of comparable size and on the time required for the proper performance of the role. Additional responsibilities are also taken into account. No director votes in respect of his own remuneration.

Non-executive directors do not have contracts of employment, do not participate in the Company designated pension schemes or bonus schemes and do not receive any taxable benefits in kind. The terms of appointment do not entitle non-executive directors to receive compensation in the event of early termination of their appointment.

Fees paid to non-executive directors are reviewed at the discretion of the Board.

Implementation of remuneration policy in 2015/16

This section has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The information has been audited as indicated.

Single total figure for remuneration of executive directors for 2015/16 (audited)

	L García		M Axtell		M King ¹	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£'000	£'000	£'000	£'000	£'000	£'000
Salary/fees	194	194	128 ²	123	87	112
Compensation for loss of office	-	-	-	-	79	-
Bonus	40	51	38	35	3	27
Benefits	11	10	4	3	2	3
Pension	12	12	8	7	5	7
Single Figure pre-LTIP	257	267	178	168	176	149
Change since 2013/14	-3.7%	3.1%	6.0%	5.7%	18.1%	-0.9%
LTIP ³	-	187	-	36	-	43
Single Figure	257	454	178	204	176	192

1 Resigned as the Regulation Director on 31 December 2015 and, accordingly, the remuneration in the above table reflects only Mr King's nine months' service and his compensation for loss of office payment in 2015/16.

2 Following a Company wide restructure, Mr Axtell was appointed as Chief Financial Officer in November 2015. The salary in 2015/16 reflects an increase due to the additional responsibilities of the role.

3 There is no LTIP in place for 2015/16. The figures disclosed for 2014/15 LTIP represent the benefit earned from performance measures which were met during 2014/15 only and have no component dependent on future years' performance. The 2014/15 figures differ from the expenses recorded in the Profit and Loss Account, as they represent a prudent estimate by management of the value of awards accrued in respect of the LTIP at 31 March 2015.

Bonus includes amounts accrued and approved, but not paid as at 31 March 2016 and relates to the period served as a director.

Single total figure for remuneration of non-executive directors for 2015/16 (audited)

	Salary/fees	
	2015/16 £'000	2014/15 £'000
K Ludeman	100	77
P McIlwraith	43	43
C Curling	40	40
R Davis	35	35
T Tutton ¹	35	9
M Bernstein ²	-	-
A Harding ²	-	-
H Ichishi ²	-	-
M Smerdon ²	-	-
Single Figure	253	204

1 No remuneration has been paid by the Company.

The Chairman's salary was increased with effect from 1 July 2015 following a market review of non-executive chairmen's salaries and a review of the duties performed by the Chairman.

The non-executive directors do not receive a bonus or any other benefits.

The remuneration policy for the financial year was approved by the Committee on 9 July 2015.

Salary (audited)

A salary review conducted by the Committee during 2015/16 resulted in no increase in base salary effective from April 2015 for any employees, including the Chief Executive and all executive directors (2014/15: all staff: 2.50% base salary increase; Chief Executive Officer: 2.50% base salary increase).

The proportion of base salary awarded to the Chief Executive Officer as annual bonus for 2015/16 fell by 5.67% compared with the prior year (2014/15: decrease of 26.74%). The proportion of base salary awarded to all other staff as annual bonus for the same period fell by 0.05% compared with the prior year (2014/15: decrease of 15.60%).

Annual bonus for 2015/16 (audited)

During the year under review, the Company’s annual bonus scheme was suspended due to the referral to CMA. At the year end, the financial performance was reviewed alongside operational, financial, health and safety and customer service performance and it was decided that payment of a bonus was appropriate, with distribution to staff being based on a percentage of salary according to individual performance ratings.

This resulted in an average bonus payment of £900 per employee (2014/15: £727 per employee). This is the average bonus for those at the lowest grade group.

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

L García	57% of maximum bonus entitlement, i.e. 21% of base salary
M Axtell	82% of maximum bonus entitlement, i.e. 30% of base salary

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

Benefits (audited)

These include the provision of a company car or equivalent cash allowance, and private medical insurance.

Benefits, including benefits in kind, payable to the Chief Executive Officer increased by 6.89% compared with the prior year (2014/15: increase 3.58%). Benefits payable to all other eligible staff have remained constant compared with the prior year (2014/15: constant).

Depending on the individual employee role, the benefits may include provision of company car and fuel, car and fuel allowances, health care or child care vouchers.

LTIP (audited)

The period to which the AMP 5 LTIP related ended on 31 March 2015. One commercially sensitive performance condition could not be determined until after that date because it was linked to the outcome of the CMA referral of the PR14 process. In the event no amount in respect of the LTIP award became payable by reference to that performance condition. Therefore, the amount payable under the AMP5 LTIP is in line with the performance stated in the Bristol Water Plc Annual Report 2015 reflecting a performance achievement of 48.08%.

The payments in respect of the LTIP are being made in two equal instalments: the first was paid on 31 December 2015 and the second is due for payment on 31 December 2016.

Pension arrangements (audited)

At 31 March 2016, no director was accruing benefits under the Company’s defined benefit pension scheme.

Mr García became a member of the Company designated stakeholder pension scheme in October 2013 under the Government’s pension auto-enrolment legislation. Since that time, the Company has been making contributions equivalent to 6% of annual base salary to the scheme on Mr García’s behalf. Contributions paid to the scheme for the financial year totalled £11,566 (2014/15: £11,556).

At 31 March 2016, Mr Axtell was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme during the financial year was £7,651, an amount equivalent to 6% of annual base salary (2014/15: £7,380).

Mr King became a member of the Company designated stakeholder scheme on 1 April 2015. The contribution paid to the scheme during the financial year was £5,052, an amount equivalent to 6% of annual salary (2014/15: £6,736, 6% of annual salary to a private pension scheme on his behalf).

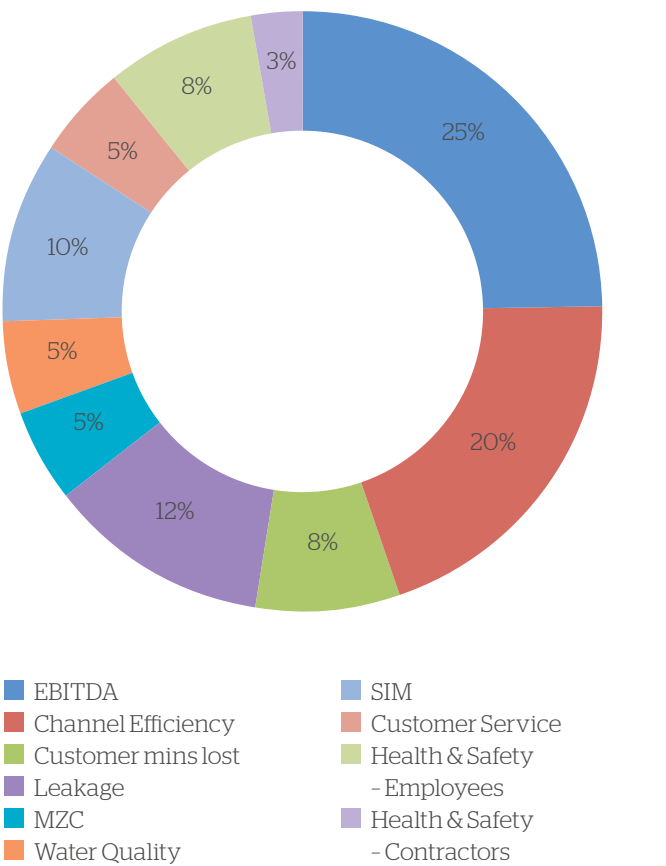
Any newly-appointed executive directors recruited externally will be offered membership of a Company designated stakeholder pension scheme or the option of a contribution by the Company to a personal pension plan.

Interests in shares (audited)

During the year ended 31 March 2016 none of the directors had any interest in the shares of the Company.

How the remuneration policy will be applied in 2016/17
The same remuneration policy will be applied as in the year under review, except that the Committee has approved an annual bonus scheme for all employees with performance targets based on customer service, financial, operational and health and safety objectives, with payment being by reference also to individual performance ratings.

The weightings allocated to each component of the bonus scheme are as follows:



In line with the BIS disclosure requirements in respect of directors’ remuneration, the minimum, expected and maximum total remuneration of the executive directors based upon the proposed policy for 2016/17 is shown in the charts on the following pages.

The maximum scenario described below is included to comply with the disclosure requirements introduced by the BIS in respect of directors’ remuneration. It is the opinion of

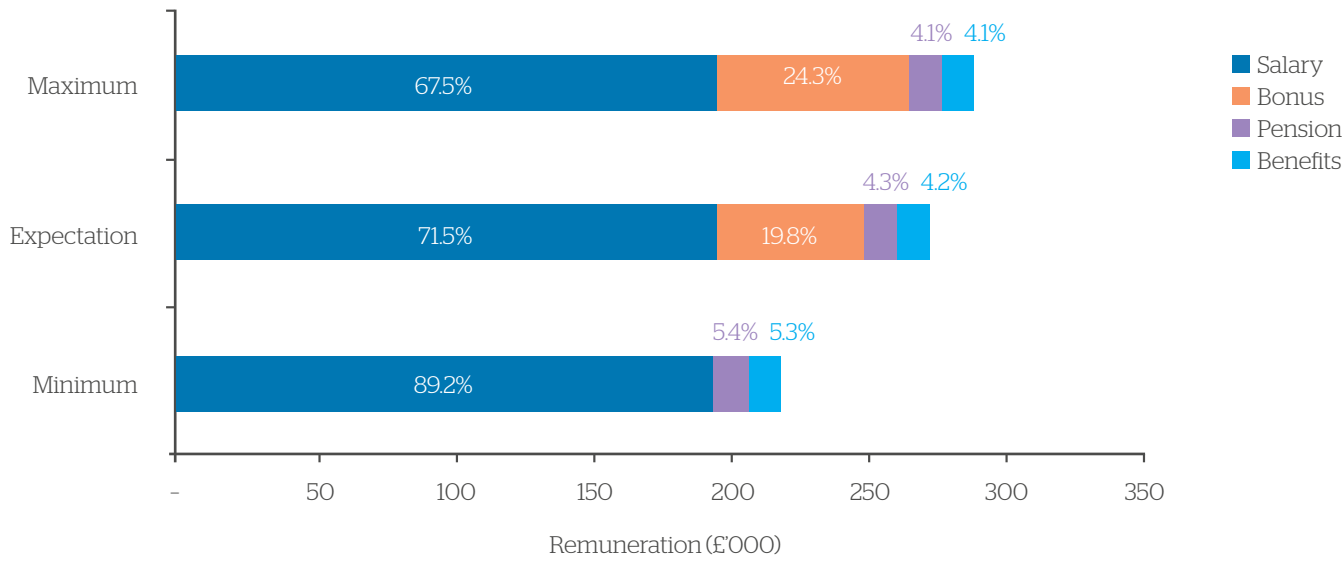
the Committee that the maximum level is highly unlikely to be reached given the stretching nature of the targets set.

There is no LTIP included in the charts as there is not currently a scheme in place.

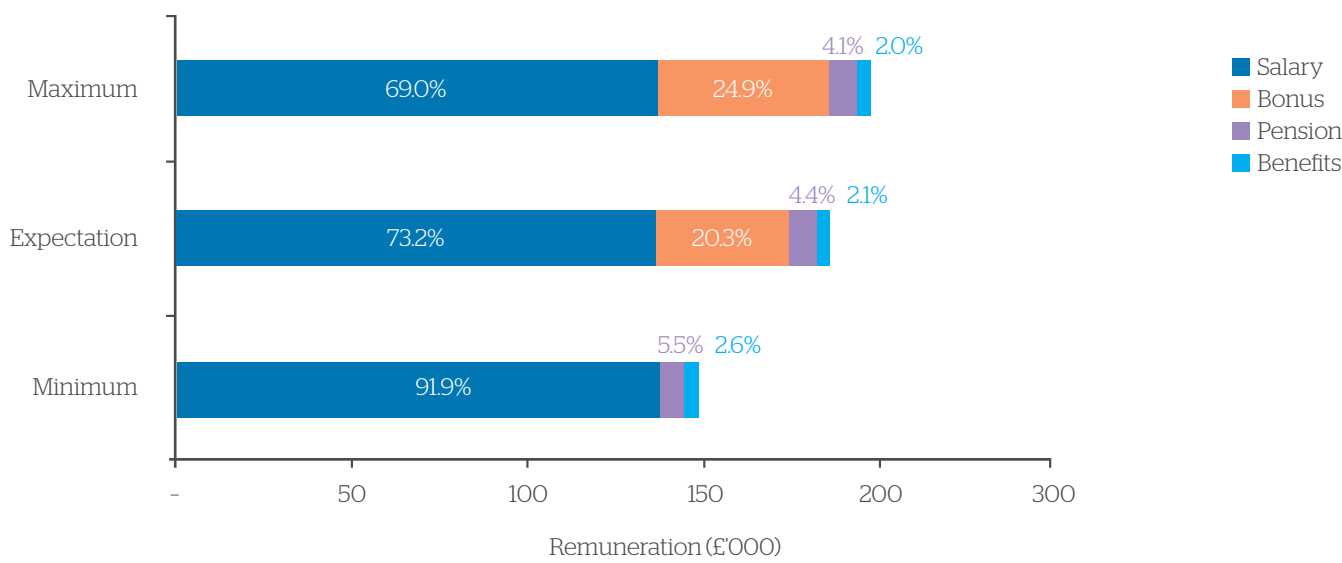
The minimum award represents all elements of the remuneration package which are not dependent upon performance criteria, namely base salary, the benefits package and pension (a fixed percentage of base salary).

The maximum award represents the maximum total package which may be earned by each director assuming that all the Company and individual performance targets relating to bonus are achieved in their entirety. In such exceptional circumstances, the executive directors are entitled to 120% of their bonus entitlement of 30% of their respective base salaries. This entitlement is available to all staff who earn a bonus in cases of exceptional performance.

L Garcia: Chief Executive Officer



M Axtell: Finance Director



Historic Chief Executive Officer remuneration

The following table shows the total remuneration payable by the Company to Luis García, the Chief Executive Officer, in respect of service for the five year period from 1 April 2011 to 31 March 2016.

Figures in £'000	Year ended 31 March:				
	2012	2013	2014	2015	2016
Base salary	156	185	189	194	194
Bonus					
Bonus	33	58	54	51	40
Bonus as proportion of salary	21%	31%	29%	27%	21%
Maximum bonus achievable (of base salary)	36%	36%	36%	36%	36%
Proportion of maximum bonus achieved	59%	87%	79%	73%	57%
LTIP earned	-	-	48	187	-
Benefits	8	9	9	10	11
Pension	-	-	6	12	12
Total remuneration	197	252	306	454	257

The 2014/15 LTIP payments are being made in two equal instalments; the first instalment was paid on 31 December 2015 and the second instalment is due for payment on 31 December 2016.

Importance of pay

The Committee is aware of the importance of pay across the Company in delivering the Company's strategy and of the level of executive remuneration in relation to other cash disbursements. The table below shows the relationship between the Company's financial performance, payments made to shareholders and expenditure on payroll.

Figures in £m	Year ended 31 March 2016	Year ended 31 March 2015
EBITDA	55.3	69.6
PBT	27.8	37.2
Payments to shareholders:		
Base level dividends	-	10.3
Inter-company loan interest related dividends	3.2	3.2
Payments to employees:		
Wages and salaries excluding directors	15.7	16.5
Wages and salaries including directors	16.6	17.5

Shareholder and employee input in setting remuneration policy

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

The Committee does not consider it appropriate to consult with the general workforce on matters of executive remuneration, but it has regard to the levels of remuneration throughout the workforce to achieve appropriate balance.

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

Chris Curling

Chairman of Remuneration Committee. 14 July 2016

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INCOME STATEMENT

for the year ended 31 March 2016

	Note	2016 £m	2015 restated £m
Revenue	3.2.6	110.9	132.8
Operating costs	7	(74.8)	(85.7)
Operating profit		36.1	47.1
Other net interest payable and similar charges	8	(7.2)	(8.8)
Dividends on 8.75% irredeemable cumulative preference shares	8	(1.1)	(1.1)
Net interest payable and similar charges		(8.3)	(9.9)
Profit on ordinary activities before taxation		27.8	37.2
Taxation on profit on ordinary activities	9	0.8	(7.8)
Profit for the financial year		28.6	29.4
Earnings per ordinary share	10	476.7p	490.0p

All activities above relate to the continuing activities of the Company. There is no material difference between the profit on ordinary activities before tax and the profit for the financial year stated above and their historical cost equivalents

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

	Note	2016 £m	2015 restated £m
Profit attributable to Bristol Water plc shareholders		28.6	29.4
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial (loss)/gain on retirement benefit surplus	24	(2.2)	16.5
Attributable current taxation	9	1.1	-
Change in the fair value of the interest rate swaps	20	(0.3)	(0.6)
Deferred taxation	9	(7.9)	(3.2)
Other comprehensive (expense) / income for the year, net of tax		(9.3)	12.7
Total comprehensive income for the year		19.3	42.1

STATEMENT OF FINANCIAL POSITION

at 31 March 2016

	Note	2016 £m	2015 restated £m
Fixed assets			
Property, plant and equipment	11	556.6	546.0
Intangible assets	12	5.0	6.5
Other investments - Loans to a UK holding company	13	68.5	68.5
		630.1	621.0
Current assets			
Inventory	14	1.3	1.3
Trade and other receivables	15	30.7	34.5
Cash and cash equivalents	16	18.0	10.6
		50.0	46.4
Creditors: amounts falling due within one year			
Current portion of borrowings	17	(0.4)	(0.4)
Other creditors	17	(33.0)	(42.6)
		(33.4)	(43.0)
Net current assets		16.6	3.4
Total assets less current liabilities		646.7	624.4
Creditors: amounts falling due after more than one year			
Borrowings and derivatives	18, 19, 21	(308.4)	(306.7)
8.75% irredeemable cumulative preference shares	18, 19, 25	(12.5)	(12.5)
Deferred income	22	(71.7)	(69.2)
Provisions for liabilities	23	(59.1)	(71.5)
Net assets excluding retirement benefit surplus		195.0	164.5
Retirement benefit surplus	24	31.9	46.3
Net assets including retirement benefit surplus		226.9	210.8
Equity			
Called-up share capital	25	6.0	6.0
Share premium account		4.4	4.4
Other reserves		4.1	4.3
Retained earnings		212.4	196.1
Total Equity		226.9	210.8

The financial statements of Bristol Water plc, registered number 2662226 on pages 94 to 142, were approved by the Board of Directors on 14 July 2016 and signed on its behalf by:

Luis García, Director

Mick Axtell, Director

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2014 (restated)	6.0	4.4	5.8	(1.0)	167.0	182.2
Profit for the year	-	-	-	-	29.4	29.4
Other comprehensive income for the year:						
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	16.5	16.5
Fair value of interest rate swap	-	-	-	(0.6)	-	(0.6)
Deferred taxation	-	-	-	0.1	(3.3)	(3.2)
Total comprehensive income for the year	-	-	-	(0.5)	42.6	42.1
Ordinary dividends	-	-	-	-	(13.5)	(13.5)
Balance as at 31 March 2015 (restated)	6.0	4.4	5.8	(1.5)	196.1	210.8
Balance as at 1 April 2015 (restated)	6.0	4.4	5.8	(1.5)	196.1	210.8
Profit for the year	-	-	-	-	28.6	28.6
Other comprehensive income for the year:						
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	-	(2.2)	(2.2)
Attributable current taxation	-	-	-	-	11	11
Fair value of interest rate swaps	-	-	-	(0.3)	-	(0.3)
Deferred taxation	-	-	-	0.1	(8.0)	(7.9)
Total comprehensive income for the year	-	-	-	(0.2)	19.5	19.3
Ordinary dividends	-	-	-	-	(3.2)	(3.2)
Balance as at 31 March 2016	6.0	4.4	5.8	(1.7)	212.4	226.9

The Board has proposed a dividend of £1m in respect of the financial year 2015/16 (2014/15: £nil)

CASH FLOW STATEMENT

for the year ended 31 March 2016

	Note	2016 £m	2015 restated £m
Cash flows from operating activities			
Profit before taxation		27.8	37.2
Adjustments for:			
Depreciation, net of amortisation of deferred income	7	17.2	16.8
Amortisation of intangibles	7	2.0	2.0
Difference between pension charges and normal contributions		(2.9)	(0.2)
Gain on disposal of assets		-	(0.3)
Interest income	8	(4.2)	(4.1)
Interest expense	8	14.0	15.2
Pension interest income	8	(1.5)	(1.2)
Decrease / (Increase) in trade and other receivables	15	4.5	(2.6)
(Decrease) / Increase in trade and other creditors and provisions		(5.6)	2.4
Additional contributions to pension scheme		(0.4)	(0.4)
Cash generated from operations		50.9	64.8
Interest paid		(11.6)	(11.3)
Corporation taxes paid		(2.2)	(2.6)
Net cash inflows from operating activities		37.1	50.9
Cash flows from investing activities			
Purchase of property plant and equipment		(33.5)	(57.0)
Contributions received	22	4.2	3.6
Proceeds from sale of fixed assets		0.1	0.5
Interest received	8	4.2	4.1
Net cash used in investing activities		(25.0)	(48.8)
Cash flows from financing activities			
Proceeds from long-term borrowings		-	60.6
Repayment of long-term borrowings		-	(50.0)
Payment of finance lease liabilities		(0.3)	(0.3)
Preference dividends paid		(1.1)	(1.1)
Equity dividends paid		(3.2)	(13.5)
Net cash used in financing activities		(4.6)	(4.3)
Net increase / (decrease) in cash and cash equivalents		7.5	(2.2)
Cash and cash equivalents, beginning of year	16	10.5	12.7
Cash and cash equivalents, end of year	16	18.0	10.5

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Bristol Water plc (“the company”) is one of eight regulated Water only supply Companies (“WoCs”) in England and Wales. The company is the licensed monopoly provider of water services in the Bristol area, and as such is regulated by the Water Services Regulation Authority - Ofwat.

The company is incorporated and domiciled in the UK. The address of its registered office is Bridgwater road, Bristol.

2 BASIS OF PREPARATION

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

For all periods up to and including the year ended 31 March 2015, the Company prepared its financial statements in accordance with the then applicable financial reporting standards under the United Kingdom Generally Accepted Accounting Practices (UK GAAP). With effect from 1 January 2015 the Financial Reporting Council revised the financial reporting standards in the United Kingdom and Republic of Ireland and replaced them with new Financial Reporting Standards. Accordingly, from 1 April 2015 the Company has adopted FRS101, the impact of adopting FRS101 is set out in note 5.

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

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

- IFRS1, ‘First-time adoption of International Financial Reporting Standards’ (requirement to present opening statement of financial position at date of transition)
- Requirements of IFRS 13 ‘fair value measurement (disclosure of fair value techniques and inputs)
- Paragraph 38 of IAS 1, ‘Presentation of financial statements’ comparative information requirements in respect of
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 ‘Property, plant and equipment’

- (iii) paragraph 118(e) of IAS38 Intangible Asset
- The following paragraphs of IAS 1, ‘Presentation of financial statements’:
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38B-D (additional comparative information)
 - 40A-D (requirements for a third statement of financial position)
 - 134-136 (capital management disclosures)
- Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not effective).
- Paragraph 17 of IAS 24, ‘Related party disclosures’ (key management compensation)
- The requirements in IAS 24, ‘Related party disclosures’ to disclose related party transactions entered into between two or more members of a group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The company’s forecasts and projections show that the company should be able to operate within the level of its current cash reserves and borrowing facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the company’s borrowings is given in note 3.13

3.2 Revenue

Revenue comprises of charges to customers for water and other services, exclusive of VAT.

Revenue from metered water supply is based on water consumption, and is recognised upon delivery of water. Revenue from metered water supply includes an estimate of the water consumption for customers whose meters were not read at the reporting date. The estimate covers the period between the last meter reading and the reporting dates and is recorded within accrued income.

3 Summary of significant accounting policies (continued)

Revenue from unmetered water supply is based on either the rateable value of the property or on an assessed volume of water supplied, and is recognised over the period to which the bill relates.

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

3.3 Property, plant and equipment and depreciation

Tangible assets are stated at historic purchase cost less accumulated depreciation and comprise infrastructure assets and other assets.

The cost of assets includes their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs which are incremental to the Company.

Capitalisation of borrowing costs

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

Depreciation

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

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

Infrastructure assets	23 to 213 years
Operational properties and structures	3 to 100 years

Plant and equipment comprising:

Treatment, pumping and general plant	2 to 30 years
Computer hardware, communications, meters and telemetry equipment	4 to 15 years
Vehicles and mobile plant	4 to 7 years

Assets under construction are not depreciated.

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

Impairment

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

Disposal

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

3.4 Intangible assets

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

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

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

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

Disposal

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

3.5 Grants and contributions

Grants and contributions received in respect of network

and other assets are recognised in line with the provisions of International Financial Reporting Interpretations Committee (“IFRIC”) 18: Transfer of Assets from Customers.

Contributions are shown within deferred income on the Statement of Financial Position and the related amortisation is recognised in the Income Statement over the useful life of the relevant assets.

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

3.6 Pension costs

The Company operates both defined benefit and defined contribution pension arrangements. Defined benefit pension arrangements are provided through the Company’s membership of the Water Companies’ Pension Scheme (WCPS) via a separate section.

Defined benefit scheme

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Company’s defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit together with the Scheme running costs.

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

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

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

Defined contribution schemes

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

3.7 Research and development

Research and development expenditure is charged to the Income Statement as incurred. Development expenditure is not capitalised as it does not meet the recognition criteria of IAS38.

3.8 Distributions to shareholders

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

3.9 Leased assets

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalised and depreciated over the shorter of their estimated useful lives and the lease term. The capital portion of the lease commitment is included in current or non-current creditors as appropriate. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the Income Statement.

Operating lease rental payments are charged to the Income Statement as incurred over the term of the lease.

3.10 Taxation

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

Advance Corporation Tax (“ACT”) in respect of dividends in previous years is written off to the Income Statement unless it can be recovered against mainstream corporation tax in the financial year or with reasonable assurance in the future. Credit is taken for ACT previously written off when it is recovered against mainstream corporation tax liabilities.

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

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

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

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

3.11 Cash and cash equivalents

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

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

3.12 Inventory

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

3.13 Financial instruments

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

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

In accordance with the provisions of IAS 32, 'Financial Instruments: Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement', the Company fair values its interest-rate swaps on the Statement of Financial Position.

Hedge accounting

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking a hedge transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The effective portion of the swaps' fair value movements is recognised in the other comprehensive income. Should there be any ineffectiveness, the ineffective portion of the fair value movements would be recognised immediately in the Income Statement within finance charges.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. Accordingly the cumulative gains/losses previously recognised in the Statement of Comprehensive Income are reclassified immediately to the Income Statement.

3.14 Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Per the requirements of FRS 101 the deferred taxation provision is not discounted. Other provisions are not discounted as the effect of the time value of money is not considered material.

3.15 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.16 Creditors

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property plant and equipment and note 3.3 for the useful economic lives for each class of assets.

Useful economic lives of intangible assets

The annual amortisation for computer software is sensitive to changes in the estimated useful economic lives of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments and economic utilisation. See note 12 for the carrying amount of the

intangible assets and note 3.4 for the useful economic lives of the assets.

Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the aging profile of the receivables and historical experience. See note 15 for the net carrying amount of the receivables and associated impairment provision.

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depends on a number of factors, including: life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

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

See note 24 for the disclosures of the defined benefit pension scheme.

5. FIRST-TIME ADOPTION OF FRS 101

As disclosed in note 2, these financial statements, for the year ended 31 March 2016, are the first annual financial statements the Company has prepared using FRS 101 framework. Accordingly the comparative information for the year ended 31 March 2015 has also been restated. In preparing these financial statements, the Company's opening Statement of Financial Position was prepared as at 1 April 2014. This note explains the principal adjustments made by the Company in restating its UK GAAP statement of financial position as at 1 April 2014 and its previously published UK GAAP financial statements for the year ended 31 March 2015. The Company has elected to apply full retrospective accounting for FRS 101.

5. FIRST-TIME ADOPTION OF FRS 101 (CONTINUED)

Reconciliation of equity as at 1 April 2014	Notes	UK GAAP £m	Remeasure- ments £m	FRS 101 restated £m
Fixed assets				
Property, plant and equipment	51,52(A,B,C)	345.9	163.8	509.7
Intangible assets	52(D)	-	6.9	6.9
Other investments - Loans to a UK holding company		68.5	-	68.5
Current assets				
Inventory		1.3	-	1.3
Trade and other receivables		31.9	-	31.9
Cash and cash equivalents		12.7	-	12.7
		45.9	-	45.9
Creditors: amounts falling due within one year				
Current portion of borrowings		(0.4)	-	(0.4)
Other creditors		(42.9)	-	(42.9)
		(43.3)	-	(43.3)
Net current assets		2.6	-	2.6
Total assets less current liabilities		417.0	170.7	587.7
Creditors: amounts falling due after more than one year				
Borrowings and derivatives		(292.1)	-	(292.1)
8.75% irredeemable cumulative preference shares		(12.5)	-	(12.5)
Deferred income	51,52(B)	(8.3)	(58.9)	(67.2)
Provision for liabilities	52(A,B,C,E,F)	(21.3)	(40.4)	(61.7)
Net assets excluding retirement benefit surplus		82.8	71.4	154.2
Retirement benefit surplus	52(E)	9.0	19.0	28.0
Net assets including retirement benefit surplus		91.8	90.4	182.2
Equity				
Called-up share capital		6.0	-	6.0
Share premium account		4.4	-	4.4
Other reserves		4.8	-	4.8
Retained earnings	52(G)	76.6	90.4	167.0
Total Equity		91.8	90.4	182.2

5. FIRST-TIME ADOPTION OF FRS 101 (CONTINUED)

Reconciliation of equity as at 31 March 2015 (date of transition to FRS 101)	Notes	UK GAAP £m	Remeasure- ments £m	FRS 101 restated £m
Fixed assets				
Property, plant and equipment	51,52(A,B,C)	364.0	182.0	546.0
Intangible assets	52(D)	-	6.5	6.5
Other investments - Loans to a UK holding company		68.5	-	68.5
Current assets				
Inventory		1.3	-	1.3
Trade and other receivables		34.5	-	34.5
Cash and cash equivalents		10.6	-	10.6
		46.4	-	46.4
Creditors: amounts falling due within one year				
Current portion of borrowings		(0.4)	-	(0.4)
Other creditors		(42.6)	-	(42.6)
		(43.0)	-	(43.0)
Net current assets		3.4	-	3.4
Total assets less current liabilities		435.9	188.5	624.4
Creditors: amounts falling due after more than one year				
Borrowings and derivatives		(306.7)	-	(306.7)
8.75% irredeemable cumulative preference shares		(12.5)	-	(12.5)
Deferred income	51,52(B)	(7.8)	(61.4)	(69.2)
Provision for liabilities	52(A,B,C,E,F)	(27.3)	(44.2)	(71.5)
Net assets excluding retirement benefit surplus		81.6	82.9	164.5
Retirement benefit surplus	52(E)	11.3	35.0	46.3
Net assets including retirement benefit surplus		92.9	117.9	210.8
Equity				
Called-up share capital		6.0	-	6.0
Share premium account		4.4	-	4.4
Other reserves		4.3	-	4.3
Retained earnings	52(G)	78.2	117.9	196.1
Total Equity		92.9	117.9	210.8

5. FIRST-TIME ADOPTION OF FRS 101 (CONTINUED)

Reconciliation of total comprehensive income for the year ended 31 March 2015		UK GAAP	Remeasure-ments	FRS 101 restated
	Notes	£m	£m	£m
Revenue		132.8	-	132.8
Operating expenses	5.2(A,B,E)	(99.8)	14.1	(85.7)
Operating profit		33.0	14.1	47.1
Other net interest payable and similar charges	5.2(C,E)	(10.5)	1.7	(8.8)
Dividends on 8.75% irredeemable cumulative preference shares		(1.1)	-	(1.1)
Net interest payable and similar charges		(11.6)	1.7	(9.9)
Profit on ordinary activities before taxation		21.4	15.8	37.2
Taxation on profit on ordinary activities	5.2(F)	(7.6)	(0.2)	(7.8)
Profit for the year		13.8	15.6	29.4
Other comprehensive income				
Actuarial gains recognised in respect of retirement benefit obligations	5.2(E)	1.6	14.9	16.5
Attributable deferred tax	5.2(E)	(0.3)	(3.0)	(3.3)
Change in the fair value of the interest rate swaps		(0.6)	-	(0.6)
Attributable deferred tax		0.1	-	0.1
Total comprehensive income for the year		14.6	27.5	42.1

5.1 Remeasurement of fixed assets

Year ended 31 March 2014 Equity		Reversal of renewals accounting (note A)	Grants and contributions (note B)	IAS 23 application (note C)	Total adjustment
	Notes	£m	£m	£m	£m
Property, plant and equipment	5.2(A,B,C)	108.3	58.9	3.5	170.7
Deferred income	5.2(B)	-	(58.9)	-	(58.9)
Provision for liabilities	5.2(A,B,C)	(27.0)	5.4	(0.7)	(22.3)
Net assets		81.3	5.4	2.8	89.5

Year ended 31 March 2015 Equity		Reversal of renewals accounting (note A)	Grants and contributions (note B)	IAS 23 application (note C)	Total adjustment
	Notes	£m	£m	£m	£m
Property, plant and equipment	5.2(A,B,C)	122.8	61.4	4.3	188.5
Deferred income	5.2(B)	-	(61.4)	-	(61.4)
Provision for liabilities	5.2(A,B,C)	(30.4)	5.9	(0.9)	(25.4)
Net assets		92.4	5.9	3.4	101.7

Year ended 31 March 2015 Total comprehensive income		Reversal of renewals accounting (note A)	Grants and contributions (note B)	IAS 23 application (note C)	Total adjustment
	Notes	£m	£m	£m	£m
Operating costs	5.2(A,B,C)	(3.7)	-	-	(3.7)
Depreciation	5.2(B)	17.0	1.1		18.1
Operating profit		13.3	1.1	-	14.4
Interest		-	-	0.9	0.9
Tax	5.2(A,B,C)	(2.6)	(0.2)	(0.2)	(3.0)
Profit for the financial year		10.7	0.9	0.7	12.3

5.2 Notes to the reconciliation of equity as at 1 April 2014 and 31 March 2015 and total comprehensive income for the year ended 31 March 2015

A Reversal of renewals accounting

In accordance with FRS 15, infrastructure assets were treated as a single homogenous asset, which was subject to renewals accounting. Under renewals accounting, the 'Infrastructure Renewals Expenditure', the expenditure required to maintain the asset, was treated as an addition to property, plant and equipment. The depreciation charge for the infrastructure network was the equivalent to the infrastructure expenditure required to maintain the operating capability of the network averaged over 15 years.

Under IAS 16, infrastructure renewal accounting is not permitted and infrastructure assets are depreciated over their estimated useful lives. Infrastructure renewals expenditure is assessed under the IAS 16 principles and is capitalised or charged to operating expenditure accordingly.

The Company has elected for full retrospective application of IAS 16 at the date of transition to FRS 101. Accordingly, an increase of £122.8m (1 April 2014: £108.3m) was recognised in fixed assets, net of accumulated depreciation.

Operating profit for the year ended 31 March 2015 in the comparative FRS 101 Income Statement was increased by £13.3m. This increase consists of a reduction in depreciation relating to the infrastructure renewals charge of £17m and an increase in operating expenses of £3.7m.

B Grants and contributions adjustment

Under treatment allowed by Statement of Standard Accounting Practice Number 4 contributions received in respect of enhancing the infrastructure network were deducted from the cost of the related tangible assets. In accordance with renewals accounting detailed above these assets were not separately depreciated.

FRS 101 requires that such contributions be shown as deferred income and amortised over the life of the underlying related asset.

At the date of transition to FRS 101, an increase of £61.4m (1 April 2014: £58.9m) was recognised in fixed assets, net of accumulated amortisation.

Operating profit for the year ended 31 March 2015 in the comparative FRS 101 Income Statement was increased by £1.1m.

C Application of IAS 23

IAS 23 'Borrowing Costs' (IAS 23) allows for the borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to

get ready for its intended use to be capitalised as part of the cost of the respective assets.

The Company has retrospectively applied IAS 23 for all eligible assets where construction was commenced on or after 1 January 2009.

At the date of transition to FRS 101, an increase of £4.3m (1 April 2014: £3.5m) was recognised in fixed assets, net of accumulated depreciation.

Net interest cost for the year ended 31 March 2015 in the comparative FRS 101 Income Statement was reduced by £0.9m in relation to the borrowing cost capitalisation.

D Intangible Assets

Under UK GAAP, computer software assets were recognised within property, plant and equipment. Upon conversion to FRS 101 these have been reclassified as intangible assets in accordance with IAS 38 'Intangible Assets'.

E Reversal of pension surplus restriction

Under FRS 17 'Retirement Benefits' the pension scheme surplus was recognised to the extent that it was recoverable through reduced contributions in the future or refunds from the scheme. Such restriction on the level of surplus is not applicable under IAS 19 'Employee Benefits'. The amount of the pension surplus not previously recognised has been recognised on transition to FRS 101.

At the date of transition to FRS 101, the additional pension surplus of £35.0m (1 April 2014: £19.0m) has been recognised.

Under UK GAAP the pension surplus was shown net of associated deferred taxation in the Statement of Financial Position. Upon conversion to FRS 101 deferred tax included within the opening pension surplus of £2.7 (1 April 2014: £2.2m) was reclassified to provisions for liabilities.

Profit before tax for the year ended 31 March 2015 in the comparative FRS 101 Income Statement was increased by £0.5m. This increase consists of an increase in pension operating costs of £0.3m offset by pension interest income of £0.8m.

F Deferred taxation

The adjustments per notes A to E above lead to different temporary taxation differences. According to the accounting policies in Note 3.10, the Company has accounted for such differences and recognised the related net deferred tax liability.

Under FRS 19, the deferred tax balance was discounted to the reporting date to reflect the time value of money. Under FRS 101,

discounting of the deferred tax balance is prohibited; this has resulted in an increase of the deferred tax liability of £9.6m (1 April 2014: £12.6m).

G Retained earnings

At 31 March 2015, the £117.9m (1 April 2014: £90.4m) net impact of the adjustments per notes A to F above, has been recognised in retained earnings.

H Cash flow Statement

As a result of the transition to FRS 101 purchase of tangible assets for the year ended 31 March 2015 has increased by £3.7m due to the additional capitalisation of assets detailed above. This decreases operating cash flow by £3.7m.

6. REVENUE

Revenue is wholly derived from water supply and related activities in the United Kingdom. The maximum level of prices the Company may levy for the majority of water charges is controlled by the Water Services Regulation Authority (Ofwat) through the RPI +/- K price formula.

7. OPERATING COSTS

(a) Operating costs includes -

	2016 £m	2015 £m
Inventory recognised as an expense	2.2	2.3
Wages and salaries, including restructuring costs and other termination benefits	16.6	17.5
Social security costs	1.7	1.7
Other pension costs	2.9	2.8
Defined benefit scheme past service cost (note 24)	(3.1)	-
Total payroll cost	18.1	22.0
Less capitalised as tangible assets	(5.9)	(8.9)
Net staff cost	12.2	13.1
Depreciation of tangible assets (note 11)		
On owned assets	17.7	17.6
On leased assets	1.2	0.8
Amortisation of intangible assets (note 12)	2.0	2.0
Amortisation of related deferred income (note 22)	(1.7)	(1.6)
Other operating charges		
Research and development expenditure	0.1	0.1
Auditors' remuneration	0.2	0.1
Impairment of trade receivables (note 15)	2.6	3.7
Impairment of inventory	-	-
Gain on disposal of tangible assets	-	(0.3)
Other charges less recoveries	38.3	47.9
Total operating costs	74.8	85.7

(b) Employee details

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

	2016 No.	2015 No.
Water treatment and distribution	252	276
Support services	100	109
Administration	80	78
Non-appointed activities	16	25
	448	488

(c) Directors' emoluments -

	2016 £m	2015 £m
Aggregate emoluments of directors, being remuneration, bonus, pension, LTIP and benefits in kind	0.8	1.1
Compensation for loss of office	0.1	-
Defined contribution pension	-	-
Sums paid to third parties for directors' services	-	-
	0.9	1.1

The highest paid director during the year was Mr García; full details of his, and all other directors' emoluments, are disclosed in the Remuneration Committee Report on pages 88 to 93.

(d) Independent auditors' remuneration

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

	2016 £'000	2015 £'000
Fees payable for the audit of the Company's annual statutory financial statement	63	48
Fees payable for other services:		
the review of the Company's interim financial statements	14	8
services pursuant to legislation, principally related to regulatory accounts and returns	34	33
agreed upon procedures work for our PR14 submission	10	49
review of PR 14 process	110	-
pension scheme review	3	3
'PwC Inform' subscription	1	1
Total non-audit fees	172	94

8. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2016	2015
	£m	restated £m
Interest payable and similar charges relate to:		
Bank borrowings	2.3	1.8
Term loans and debentures:		
interest charges	9.4	9.3
indexation and amortisation of fees and premium on loans	1.7	3.7
Finance leases	0.0	0.2
Capitalisation of borrowing cost	(0.5)	(0.9)
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
	14.0	15.2
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 24)	(1.5)	(1.2)
Loan to Bristol Water Holdings UK Ltd - interest receivable	(4.0)	(4.0)
Other external investments and deposits income	(0.2)	(0.1)
	(5.7)	(5.3)
Total net interest payable and similar charges	8.3	9.9

The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.6% (2015: 4.5%), which is the weighted average interest rate of applicable borrowings

Dividends on the 8.75% irredeemable cumulative preference shares are payable at a fixed rate of 4.375% on 1 April and 1 October each year. Payment by the Company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with IAS 39 "Financial Instruments - Recognition and Measurement".

9. TAXATION

	2016	2015
	£m	restated £m
Tax expense included in Income Statement		
Current tax:		
Corporation tax on profits for the year	2.1	3.3
Adjustment to prior periods	(0.6)	(1.0)
Total current tax	1.5	2.3
Deferred tax:		
Origination and reversal of timing differences	3.8	4.6
Adjustment to prior periods	0.4	1.0
Effect of change in rate	(6.5)	(0.1)
Total deferred tax (note 23)	(2.3)	5.5
Tax on profit on ordinary activities	(0.8)	7.8
Tax expense income included in other comprehensive income		
Current tax on defined benefit plan	(1.1)	-
Deferred tax:		
Remeasurement of post employment benefit liability	(0.9)	3.3
Remeasurement of swap liability	(0.1)	(0.1)
Effect of corporation tax change in rate	(0.9)	-
Effect of pension change in rate	9.8	-
Total tax expense included in other comprehensive income	6.8	3.2

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.

Reconciliation of the tax on profit on ordinary activities

A reconciliation between tax expense and the product of accounting profit multiplied by United Kingdom domestic tax rate the current tax rate for the year is lower (2014/15: same) than the standard rate of tax is as follows:

	2016	2015
	£m	£m
Profit on ordinary activities before tax	27.8	37.2
At statutory income tax rate of 20% (2015: 21%)	5.6	7.8
Adjustments in respect to current income tax and deferred tax of previous years	(0.2)	(0.2)
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	0.3	0.3
	5.7	7.9
Effective income rate before rate change	20.5%	21.3%
Effect of tax rate change on opening balances	(6.6)	-
Effect of tax rate change on current year movement	0.1	(0.1)
Total taxation expense included in income statement	(0.8)	7.8

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 financial 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 financial statements.

10. EARNINGS PER ORDINARY SHARE

	2016	2015
	m	restated m
Basic earnings per ordinary share have been calculated as follows -		
Earnings attributable to ordinary shares	£28.6	£294
Weighted average number of ordinary shares	6.0	6.0

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

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land, operational properties and structures	Plant and equipment	Infra- structure assets	Assets under construction	Total £m
	£m		£m	£m	
At 1 April 2014 (restated)					
Cost	275.9	36.9	366.6	35.6	715.0
Accumulated depreciation	(118.9)	(24.0)	(62.4)	-	(205.3)
Net book amount	157.0	12.9	304.2	35.6	509.7
Year ended 31 March 2015 (restated)					
Opening net book amount	157.0	12.9	304.2	35.6	509.7
Additions	-	-	22.1	32.8	54.9
Disposals	(0.2)	-	-	-	(0.2)
Capitalisation of completed assets	39.6	4.4	8.0	(52.0)	-
Depreciation charge (note 7)	(10.6)	(3.0)	(4.8)	-	(18.4)
Closing net book amount	185.8	14.3	329.5	16.4	546.0
At 31 March 2015 (restated)					
Cost	313.4	36.5	396.7	16.4	763.0
Accumulated depreciation	(127.6)	(22.2)	(67.2)	-	(217.0)
Net book amount	185.8	14.3	329.5	16.4	546.0
Year ended 31 March 2016					
Opening net book amount	185.8	14.3	329.5	16.4	546.0
Additions	-	-	-	29.6	29.6
Disposals	-	(0.1)	-	-	(0.1)
Capitalisation of completed assets	14.7	1.6	12.8	(29.1)	-
Depreciation charge (note 7)	(10.2)	(3.5)	(5.2)	-	(18.9)
Closing net book amount	190.3	12.3	337.1	16.9	556.6
At 31 March 2016					
Cost	317.2	34.7	409.5	16.9	778.3
Accumulated depreciation	(126.9)	(22.4)	(72.4)	-	(221.7)
Net book amount	190.3	12.3	337.1	16.9	556.6

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets were £13.4m (2015: £6.0m).

The net book value of property, plant and equipment includes £4.8m (2015:£4.3m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2016 £0.5m (2015: £0.9m) was capitalised using a weighted average interest rate of 4.6% (2015: 4.5%). This is the weighted average interest of applicable borrowings.

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

Included above at 31 March 2016 is freehold land, not subjected to depreciation in the year, of £1.7m (2014/15: £1.7m).

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Included above at 31 March 2016 are tangible assets held under finance leases analysed by asset type as follows:

	Freehold land, operational properties and structures	Plant and equipment	Infra- structure assets	Total £m
	£m	£m	£m	
At 31 March 2016				
Cost	25.5	21	1.2	28.8
Accumulated depreciation	(22.0)	(2.1)	(1.0)	(25.1)
Net book value	3.5	-	0.2	3.7
At 31 March 2015 (restated)				
Cost	35.4	2.6	1.2	39.2
Accumulated depreciation	(27.3)	(2.6)	(1.0)	(30.9)
Net book value	8.1	-	0.2	8.3

12. INTANGIBLE ASSETS

	Computer Software £m	Assets under construction £m	Total £m
At 1 April 2014 (restated)			
Cost	26.3	0.4	26.7
Accumulated amortisation	(19.8)	-	(19.8)
Net book amount	6.5	0.4	6.9
Year ended 31 March 2015 (restated)			
Opening net book amount	6.5	0.4	6.9
Additions	-	1.6	1.6
Disposals	-	-	-
Capitalisation of completed assets	1.6	(1.6)	-
Amortisation charge (note 7)	(2.0)	-	(2.0)
Closing net book amount	6.1	0.4	6.5
At 31 March 2015 (restated)			
Cost	25.3	0.4	25.7
Accumulated depreciation	(19.2)	-	(19.2)
Net book amount	6.1	0.4	6.5
Year ended 31 March 2016 (restated)			
Opening net book amount	6.1	0.4	6.5
Additions	-	0.5	0.5
Disposals	-	-	-
Capitalisation of completed assets	0.4	(0.4)	-
Depreciation charge (note 7)	(2.0)	-	(2.0)
Closing net book amount	4.5	0.5	5.0
At 31 March 2016			
Cost	24.2	0.5	24.7
Accumulated depreciation	(19.7)	-	(19.7)
Net book amount	4.5	0.5	5.0

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets were £1.4m (2015: £2.6m).

13. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	£m
Balance at 31 March 2016 and 31 March 2015	68.5

Other investments comprise loans advanced to Bristol Water Holdings UK Limited. The details are as follows:

Agreement date	Loan advance date	Fixed interest Rate*	Loan repayment date	Principal outstanding £m
4 December 2003	12 February 2004	6.042%	30 September 2033	47.0
10 June 2005	13 July 2005	5.550%	30 September 2032	21.5

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

14. INVENTORY

Stocks comprise consumable stores. The replacement cost of stocks is not considered to be materially different from their carrying value in the balance sheet.

15. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2016 £m	2015 £m
Trade receivables (a)	29.8	30.2
Less bad debt provision (a)	(16.8)	(16.2)
	13.0	14.0
Amounts owed by group and associated companies (b)	1.2	1.1
Other receivables	2.2	1.6
Prepayments and accrued income	13.6	17.8
Corporation tax recoverable	0.7	-
	30.7	34.5

(a) The aging of net trade receivables was:

	2016 £m	2015 £m
Past due by 0-30 days	2.6	3.2
Past due by 31-120 days	1.7	2.0
Past due by more than 120 days	8.7	8.8
	13.0	14.0

Bad debt provision:

	2016 £m	2015 £m
At 1 April	16.2	15.3
Provision for trade receivables impairment (note 7)	2.6	3.7
Trade receivables written off during the year as uncollectible	(2.0)	(2.8)
At 31 March	16.8	16.2

15. TRADE AND OTHER RECEIVABLES (continued)

As at 31 March 2016, based on a review of collection rates, £16.8m (2015: £16.2m) of trade receivables were considered impaired and have been provided for.

In accordance with IAS39, the company has created a general provision that cannot be specifically attributed to the trade receivables that are impaired. The Company's policy is to consider the trade receivables impairment to be allocated on a collective basis and only impaired for the purposes of IFRS7 disclosures when the loss can be specifically identified with the trade receivables. The Company is required to continue providing residential customers with water regardless of payment

Other receivables at 31 March 2016 and 31 March 2015 have not been impaired.

(b) The sum of £0.4m (2014/15: £0.4m) is included within the heading "Due from group and associated companies" 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.

16. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following:

	2016 £m	2015 £m
Cash and cash equivalents	18.0	10.6
	18.0	10.6
Bank overdrafts	-	(0.1)
	18.0	10.5

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £m	2015 £m
Current portion of long-term borrowings		
Finance leases (note 19, 26)	0.4	0.4
Other creditors		
Bank overdraft	-	0.1
Receipts in advance	11.9	13.1
Trade creditors	8.9	14.4
Amounts owed to associates	1.7	1.3
Other taxation and social security	0.7	0.9
Corporation tax payable	-	1.0
Payments received on account	1.7	0.9
Accruals and deferred income	8.1	10.9
	33.0	42.6
Total Creditors falling due within one year	33.4	43.0

All amounts owed to associates are unsecured, interest free and repayable on demand.

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

	2016 £m	2015 £m
Amounts falling due after more than one year		
Bank and other term loans - secured	70.0	70.0
Finance leases - secured (note 19, 26)	1.9	1.7
Net unamortised premiums arising on issue of term loans	0.3	0.3
Interest rate swaps	2.0	1.8
	74.2	73.8
Amounts falling due after more than five years		
Bank and other term loans - secured	230.6	228.8
Net unamortised premiums arising on issue of term loans	2.0	2.0
Finance leases - secured (note 19, 26)	-	0.5
	232.6	231.3
Irredeemable		
Debentures	1.6	1.6
8.75% irredeemable cumulative preference shares (note 25)	12.5	12.5
	14.1	14.1
Total	320.9	319.2

None of the bank and other term loans included within creditors are payable in instalments.

Security for borrowings

The majority of the Company’s financial liabilities are secured. The security is given:

In respect of the Company

- by way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 1991), its present future goodwill, all rights and claims in relation to charged bank accounts, all book debts, all insurances, all rights, title and interest to all investments and all plant and machinery, and
- a floating charge over the whole of its undertaking.

Prior to enforcement of the security by the lender, the Company is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the Company’s Security Trust and Intercreditor Deed (“STID”).

In respect of Bristol Water Core Holdings Limited (the immediate parent of the Company), as security for the obligations of the Company:

- a fixed charge over its shares in the Company together with a floating charge over the whole of its undertaking.

19. LOANS AND BORROWINGS

	Interest rate %	Maturity £m	Total 2016 £m	Total 2015 £m
Current loans and borrowings				
Finance leases	3.64%	10 May 2016	0.4	0.4
Total current loans and borrowings			0.4	0.4
Non current loans and borrowings				
£10,000,000 bank loan	1.29%	7 Dec 2017	10.0	10.0
£10,000,000 bank loan	5.725%	7 Dec 2017	10.0	10.0
£50,000,000 bank loan	2.404%	29 Nov 2019	50.0	50.0
Interest rate swap for £50,000,000 bank loan	1.504%	29 Nov 2019	1.3	1.2
Interest rate swap for £10,000,000 bank loan	5.025%	7 Dec 2017	0.7	0.6
Finance leases	3.84%	10 May 2020	1.9	2.2
£127,835,000 term loan	3.635%*	30 Sept 2032	127.8	126.6
£57,500,000 term loan	6.01%*	30 Sept 2033	57.5	57.5
£45,302,000 term loan	2.701%	25 Mar 2041	45.3	44.7
Net unamortised premiums*			2.3	2.3
£1,405,218 Consolidated debentures	4.00%	irredeemable	1.4	1.4
£36,740 perpetual debentures	4.25%	irredeemable	-	-
£54,875 perpetual debentures	4.00%	irredeemable	0.1	0.1
£72,900 perpetual debentures	3.5%	irredeemable	0.1	0.1
£12,500,000 cumulative preference shares	8.75%	irredeemable	12.5	12.5
Total non- current loans and borrowings			320.9	319.2

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2016 £m	2015 £m
Expiring in August 2017	50.0	50.0
Expiring in December 2019	20.0	20.0
	70.0	70.0

The facilities are floating rate and incur non-utilisation fees at market rates.

20. FINANCIAL INSTRUMENTS

Fair value estimation

The fair values of the cash deposits, trade receivables, trade creditors, loans and overdrafts with a maturity of less than one year are assessed to approximate to their book values.

In the case of bank loans and other loans due in more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

The fair value of the Company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate loans from Artesian Finance II plc have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2030 plus an estimated margin.

The Company's preference shares (shown as debt within these financial statements) are listed on the London Stock Exchange and their fair value is assumed to be their quoted market price.

The long-term loans to Bristol Water Holdings UK Limited have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin.

Interest-rate swaps

At 31 March 2016, the Company was party to two interest rate swaps with notional values of £10m and £50m. These swaps were effective from 22 October 2008 and 3 December 2014 and will expire on 7 December 2017 and 29 November 2019 respectively. The fair values of the interest rate swaps have been calculated by discounting the expected future cash flows by reference to the implied future 6 month LIBOR and 3 months LIBOR respectively, and hence the swaps are valued as Level 3 instrument as set out by IFRS 13 'Fair value measurement'.

In accordance with IFRS9 'Financial Instruments', the liability arising under the swap agreements was recognised in these financial statements, as follows:

	2016	2015
Liability:	£m	£m
Due after one year	2.0	1.8
	2.0	1.8

In accordance with IFRS 9 Financial Instruments the Company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

Fair values of financial assets and financial liabilities

Although the Company does not intend to trade in any financial instruments, the following tables provide a comparison, by category, of the carrying amounts and the fair value of the Company's financial assets and financial liabilities. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at the Company's current incremental borrowing rates for borrowings of similar types and maturities.

Fair values of non-current financial assets and liabilities	31 March 2016		31 March 2015	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Primary financial instruments issued to finance the Company				
Long-term borrowings	(306.4)	(395.8)	(304.9)	(403.2)
8.75% irredeemable cumulative preference shares	(12.5)	(18.0)	(12.5)	(19.4)
Primary financial instruments issued to finance Bristol Water Holdings UK Limited				
Long-term loans	68.5	86.7	68.5	88.9
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	(2.0)	(2.0)	(1.8)	(1.8)
	(252.4)	(329.1)	(250.7)	(335.5)

The movement in the comparison of the fair value of the long-term borrowings to book value is due to fluctuations in long-term interest rates.

Fair values of other financial assets and liabilities	31 March 2016		31 March 2015	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash and cash equivalents	18.0	18.0	10.6	10.6
Trade and other receivables	30.7	30.7	34.5	34.5
Financial liabilities				
Current portion of long-term borrowings	(0.4)	(0.4)	(0.4)	(0.4)
Other creditors				
	(33.0)	(33.0)	(42.6)	(42.6)
	15.3	15.3	2.1	2.1

21. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's main financial instruments comprise:

- borrowings and cash;
- 8.75% irredeemable cumulative preference shares;
- various items, such as trade receivables and trade creditors, that arise directly from its operations; and
- two long-term loans made to Bristol Water Holdings UK Limited.

The Company has also entered into interest rate swaps to manage the interest rate risk arising from its sources of finance. It is the Company's policy not to trade in financial instruments.

The Company's significant debt financing exposes it to a variety of financial risks that include the effect of changes in debt market prices, credit risks, liquidity and interest rates. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company.

The Board is responsible for setting the financial risk management policies applied by the Company. The policies are implemented by the finance department. The finance department has a policies and procedures manual that sets out specific guidelines to manage interest rate risk, credit risk and the use of financial instruments to manage these risks.

(a) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. During the year cash and cash deposits were placed with banks for either a fixed term or repayable on demand earning interest at market rates. There are also interest-bearing fixed rate loans totaling £68.5m (2014/15: £68.5m) to Bristol Water Holdings UK Limited.

(b) Interest rate risk and inflation risk of financial liabilities

The financial liabilities consist of interest-bearing loans, debentures, finance leases and 8.75% irredeemable cumulative preference shares. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The Company's practice is to maintain the majority of its net debt on a fixed or a fixed margin above movements in RPI basis. At the year-end 40%* (2014/15: 40%**) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 95% (2014/15: 96%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The residues were at floating rates.

The Company's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities. The balance between fixed or index-linked, and floating interest rate liabilities will be kept under review, and is dependent on the availability of such resources in the financial markets.

The carrying value of the Company's index-linked borrowings is exposed to changes in RPI. The Company's RCV and water charges are also linked to RPI. Accordingly index-linked debt partially hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the indexation is provided through adjustment to the principal rather than in cash.

* Variable interest rate loans totalling £60m, covered by interest rate swaps, have been considered as fixed interest rate loans for the calculation of this percentage.

** Variable interest rate loan totalling £10m, covered by interest rate swap, was considered as fixed interest rate loan for the calculation of this percentage.

Interest rate sensitivity

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Company's profits.

The sensitivity analysis includes the effect on all financial instruments exposed to changes in interest rate.

	31 March 2016		31 March 2015	
	Profit before tax	Profit after tax	Profit before tax	Profit after tax
	£m	£m	£m	£m
Movement in interest rate of 100bp	0.1	0.1	0.1	0.1

Inflation rate sensitivity

The year-end carrying value of index-linked debt held by the Company is as follows:

	2016	2015
	£m	£m
Index-linked debt	173.1	171.3

The following table shows the illustrative effect on the Company's profits of changes in RPI in relation to its index-linked debt.

	31 March 2016		31 March 2015	
	Profit before tax	Equity	Profit before tax	Equity
	£m	£m	£m	£m
Movement in Retail Price Index by 1%	1.7	1.4	1.7	1.3

(c) Credit risk

The Company is required by the Water Industry Act 1991 to supply water to all potential customers in its licensed area. In the event of non-payment by commercial customers, but not domestic customers, the Company has a right of disconnection. For all customers the Company has implemented policies and procedures designed to assess the risk of further non-payment and recoup debts.

Under the terms of the STID, cash at bank and cash deposits are placed with banks with a minimum of Moody's P-1 and Standard & Poors A-1 credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2016	2015
	£m	£m
Long-term loans	68.5	68.5
Cash and cash equivalents	18.0	10.5
Trade and other receivables, net of bad debt provisions made	30.7	34.5
	117.2	113.5

There is no collateral held as security in respect of the above financial assets.

21. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 76% (2014/15: 77%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

The Company actively maintains a mixture of long-term and short-term committed facilities that are designed to provide sufficient funds for operations.

The Company has a £20m facility expiring in December 2019, and a £50m facility expiring in August 2017. Both the facilities are floating rate and incur non-utilisation fees at market rates.

Under the terms of the STID the Company is required to maintain sufficient funds in a nominated account to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.4m (2014/15: £5.7m), are therefore not available for other operational use or distribution to shareholders.

The table below details the Company’s remaining contractual payments until maturity for its non-derivative financial liabilities. The table is based on the undiscounted cash flows, and includes estimates of future interest payments and loan indexation on financial liabilities.

Year ended 31 March 2016	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Trade creditors	8.9	-	-	-	8.9
Due to group and associated companies	1.7	-	-	-	1.7
Other taxation and social security	0.7	-	-	-	0.7
Accruals	2.0	-	-	-	2.0
Interest bearing loans and related interest	11.6	31.5	82.6	450.2	575.9
	24.9	31.5	82.6	450.2	589.2

Year ended 31 March 2015	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Trade creditors	14.4	-	-	-	14.4
Due to group and associated companies	1.3	-	-	-	1.3
Other taxation and social security	0.9	-	-	-	0.9
	1.0	-	-	-	1.0
Accruals	3.1	-	-	-	3.1
Interest bearing loans and related interest	11.6	11.6	103.4	410.5	537.1
	32.3	11.6	103.4	410.5	557.8

Derivative financial instruments and hedge accounting

The Company has entered into two interest rate swaps with notional values of £10m and £50m. These were effective from 22 October 2008 and 3 December 2014 respectively. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, and accordingly hedge accounting is applied as mentioned in note 3.13.

The table below details the Company’s remaining contractual payments and receipts until maturity for its interest rate swaps. The table is based on the forecast undiscounted cash flows on its derivative financial liabilities based on the contractual settlement dates.

Year ended 31 March 2016	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Forecast receipts under the interest rate swaps	0.4	0.4	0.8	-	1.6
Contractual payments under the interest rate swaps	(1.3)	(1.1)	(1.3)	-	(3.7)
Net forecast cash outflow	(0.9)	(0.7)	(0.5)	-	(2.1)

Year ended 31 March 2015	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Forecast receipts under the interest rate swap	0.4	0.6	2.1	-	3.1
Contractual payments under the interest rate swap	(1.3)	(1.3)	(2.3)	-	(4.9)
Net forecast cash outflow	(0.9)	(0.7)	(0.2)	-	(1.8)

(e) Covenants compliance risk

Under the terms of its principal debt agreements the Company is required to comply with covenants relating to minimum levels of interest cover and to maximum levels of net debt in relation to regulatory capital value. Failure to comply may result in various restrictions being imposed upon the Company. Risk is minimised through continuous monitoring of the relevant ratios in both emerging and forecast results, and by close control of operating cash flows and capital investment programmes.

22. DEFERRED INCOME

	2016	2015
	£m	restated £m
Net book value, beginning of year	69.2	67.2
Additions	4.2	3.6
Amortisation charge for the year (note 7)	(1.7)	(1.6)
Net book value, end of year	71.7	69.2

	2016	2015
Current	1.7	1.7
Non-current	70.0	67.5
	71.7	69.2

23. PROVISIONS FOR LIABILITIES

	31 March 2016	31 March 2015 restated
	£m	£m
Provision for deferred tax	58.9	70.4
Provision for staff redundancies*	0.2	11
	59.1	71.5
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	64.0	67.5
Deferred income	(4.7)	(5.9)
Short-term timing differences	-	(0.1)
Retirement benefit obligations	-	9.2
Interest rate swaps	(0.4)	(0.3)
Net deferred tax liability	58.9	70.4
Reflected in the statement of financial position as follows:		
Provisions	58.9	61.2
Retirement benefit obligations	-	9.2
Deferred tax liabilities net	58.9	70.4

Reconciliation of deferred tax liabilities net:	2016	2015
	£m	£m
Opening balance as at 1 April	70.4	61.7
Tax (expense)/income during the year recognised in profit and loss	(2.3)	5.5
Tax (expense)/income during the year recognised in other comprehensive income	7.9	3.2
Reclassification of pension deferred tax (note 24)	(17.1)	-
Closing balance as at 31 March	58.9	70.4

* In the prior year a provision of £11m was made for the employee related costs of redundancies announced in March 2015. This is expected to be utilised in the current year.

Reconciliation of staff redundancies:	2016	2015
	£m	£m
Opening balance as at 1 April	1.1	-
Arising during in the year	0.1	11
Utilised	(1.0)	-
Closing balance as at 31 March	0.2	11

24. RETIREMENT BENEFIT SURPLUS

Defined benefit scheme

Pension arrangements for employees are partly provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section stopped earning additional defined benefit pensions on 31 March 2016. All eligible employees were offered membership of a stakeholder pension scheme.

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

The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP).

The details of the last triennial valuation and current update on the funding position are provided on page 42 in the Strategic Report.

From 1st April 2016, there are no anticipated employer contributions to the scheme. Subsequent to the year end the Trustees have agreed that deficit contributions, previously of £0.4m per annum, will cease on 30 June 2016.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of LDI funds which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short term.

(b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

(c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that the effect on assets of an increase in inflation will also reduce the surplus.

(e) Income tax rate risk

The value of the pension scheme surplus has been restricted by an income tax deduction of 35% under UK tax legislation. An increase in the income tax rate will reduce the net pension scheme surplus.

Basis of valuation

The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2014 was updated to 31 March 2016, by Lane Clark & Peacock LLP, using the following major assumptions in accordance with IAS 19 (Employee Benefits):

24. RETIREMENT BENEFIT SURPLUS (continued)

	2016	2015
Assumptions:		
RPI Inflation	3.1%	3.2%
CPI Inflation	2.1%	2.2%
Pension increases in payment (CPI)	2.3%	2.2%
Pension increases in payment (CPI)	2.2%	2.2%
Salary increases	-	3.7%
Discount rate	3.3%	3.2%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2016	2015
Longevity at age 60 for current pensioners		
Men	28.7	27.7
Women	30.6	29.6
Longevity at age 60 for future pensioners		
Men	32.2	30.6
Women	33.5	32.1

Reconciliation of scheme assets and liabilities:	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2014 (restated)	175.1	(147.1)	28.0
Current service cost	-	(1.4)	(1.4)
Section expenses	(0.3)	-	(0.3)
Interest income / (expense) (note 8)	7.4	(6.2)	1.2
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense/(income)	32.7	-	32.7
Changes in financial assumptions	-	(18.3)	(18.3)
Changes in demographic assumptions	-	1.1	1.1
Experience adjustments on obligation	-	1.0	1.0
	32.7	(16.2)	16.5
Benefits paid	(6.6)	6.6	-
Employer contributions	2.3	-	2.3
Employee additional contributions	0.4	(0.4)	-
Pension scheme surplus at 31 March 2015 (restated)	211.0	(164.7)	46.3

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2015	211.0	(164.7)	46.3
Current service cost	-	(1.4)	(1.4)
Section expenses	(0.3)	-	(0.3)
Interest income / (expense) (note 8)	6.7	(5.2)	1.5
Past service cost (note 7)	-	3.1	3.1
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense/(income)	(3.7)	-	(3.7)
Changes in financial assumptions	-	2.8	2.8
Changes in demographic assumptions	-	(4.4)	(4.4)
Experience adjustments on obligation	-	3.1	3.1
	(3.7)	1.5	(2.2)
Benefits paid	(6.8)	6.8	-
Employer contributions	2.0	-	2.0
Employee additional contributions	0.3	(0.3)	-
Pension scheme surplus at 31 March 2016	209.2	(160.2)	49.0

The past service cost shown above consists of an increase in the pension scheme obligations due to a discretionary pension increase to scheme members and a curtailment gain upon closure of the scheme to future accrued benefits.

Total amount recognised on the statement of financial position:	2016 £m	2015 £m
Fair value of plan assets	209.2	211.0
Pension scheme obligation	(160.2)	(164.7)
Pension scheme surplus	49.0	46.3
Less: restriction of surplus	(17.1)	-
Net pension scheme surplus	31.9	46.3

In accordance with IAS19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Company believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised.

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been shown above as a restriction to the value of the net pension scheme asset that can be recognised for this scheme.

24. RETIREMENT BENEFIT SURPLUS (continued)

Sensitivity

The sensitivity of the balance sheet surplus at 31 March 2016

	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.5%	(11.8)	13.4
Inflation assumption (CPI)	0.1%	10.8	(9.3)
Life expectancy	1 year	4.7	(4.7)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Total cost recognised as an expense:	2016 £m	2015 restated £m
Current service cost	1.4	1.4
Past service cost (note 7)	(3.1)	-
Interest cost (note 8)	(1.5)	(1.2)
Section expenses	0.3	0.3
	(2.9)	0.5

The market value of the plan assets was:

	2016				2015			
	Quoted £m	Unquoted £m	2016 £m	%	Quoted £m	Unquoted £m	2015 £m	%
Equities	4.4	-	4.4	2.1	10.0	-	10.0	4.7
Diversified growth funds	3.0	3.2	6.2	2.9	3.2	3.4	6.6	3.1
Bonds	-	-	-	-	187.2	-	187.2	88.7
LDI funds	136.2	-	136.2	65.1	-	-	-	-
Liquidity funds	54.5	-	54.5	26.0	-	-	-	-
Cash	-	0.8	0.8	0.4	-	0.1	0.1	0.1
Emerging markets multi-asset funds	3.5	-	3.5	1.7	3.4	-	3.4	1.6
High yield bonds	3.7	-	3.7	1.8	3.7	-	3.7	1.8
	205.3	4.0	209.3	100	207.5	3.5	211.0	100

The return on the plan assets was:	2016 £m	2015 restated £m
Interest income	6.7	7.4
Remeasurements	(3.7)	32.7
Total return on plan assets	3.0	40.1

The current weighted average duration of the expected benefit payments from the Section is around 15 years.

Defined contribution scheme

The Company operates defined contribution retirement benefit schemes for employees. Following the closure of the defined benefit scheme all affected employees have been offered membership of this scheme. The total cost charged to income of £1.2m (2014/15: £1.1m) represents contributions payable to the scheme. As at 31 March 2016 and 31 March 2015, all contributions due have been paid over to the scheme.

The amount recognised as an expense for the defined contribution scheme was:

	2016 £m	2015 £m
Current period contributions	1.2	1.1

25. SHARE CAPITAL

Ordinary shares of £1 each	2016 No.	2016 £m
Issued and fully paid		
At 1 April	5,998,025	6.0
Issued during the year	-	-
At 31 March	5,998,025	6.0

All shares rank pari passu in all respects.

Preference shares of £1 each	2016 No.	2016 £m
Issued and fully paid		
At 1 April	12,500,000	12.5
Issued during the year	-	-
At 31 March	12,500,000	12.5

The preference shares are classified as liabilities in the balance sheet

The 8.75% irredeemable cumulative preference shares, which do not normally carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each.

26. COMMITMENTS

Capital commitments at 31 March 2016 contracted for but not provided were £5.1m (2014/15: £6.0m).

Minimum lease payments under finance leases

The future minimum finance lease payments are as follows:	2016	2015
	£m	£m
Within one year	0.4	0.4
Between one and five years	2.0	1.9
After five years	-	0.5
Total gross payments	2.4	2.8
Impact of finance charges	(0.1)	(0.2)
Carrying value of liability	2.3	2.6

The above payments relate to the lease of plant and equipment which ends in May 2020. There is no option to purchase at the end of the lease.

27. 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, members of the Agbar Suez Environnement Company S.A group of companies, members of Itochu Corporation, 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 Company's ultimate UK holding company 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 (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. AEL also provides sub-licences to customers for the use of Ice Pigging technology in other countries.

Trading transactions

During the year the Company entered into trading transactions with related parties totalling:

	Sales of goods and services		Purchases of goods and services	
	2016	2015	2016	2015
	£m	£m	£m	£m
Members of the BWHUK group				
BWHUK management charges	-	-	-	-
Members of the Suez group				
Suez Advanced Solutions Holdings UK Limited (previously Aqualogy Solutions and Technologies UK Limited)	-	-	0.1	0.1
Suez Advanced Solutions UK Limited (previously Aqualogy Environment Limited)	-	-	0.1	0.6
Joint ventures of the BWHUK group				
BWBSL				
management charges	-	-	3.0	2.9
capital expenditure	-	-	0.1	0.1
other recharges	-	-	0.2	0.4
Joint ventures of the Agbar group				
ASTS				
management charges	-	-	-	0.8
capital expenditure	-	-	-	0.3
other	-	-	-	0.2
	-	-	3.5	5.4

At the year end the balances held with related parties were:	Amounts due from		Amounts due to	
	2016	2015	2016	2015
	£m	£m	£m	£m
Joint ventures of the BWHUK group				
BWBSL	0.8	0.7	1.2	0.9
Joint ventures of the Agbar group				
ASTS	-	-	-	-
	0.8	0.7	1.2	0.9

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of the amounts due from related parties.

Remuneration of key management personnel

Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 89 to 93.

28. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company is Bristol Water Core Holdings Limited, a company incorporated in England and Wales.

As at 31 March 2016, the ultimate parent company and controlling party was considered by the directors to be Capstone Infrastructure Corporation, a company incorporated in Canada, due to its majority ownership of CSE Water UK Limited. On 29 April 2016, Capstone Infrastructure Corporation was successfully sold to iCON Infrastructure Partners III, LP, who became the ultimate parent company and controlling party.

As at 31 March 2016 the Company was ultimately owned 50% by Capstone, 30% by Suez (previously Sociedad General de Aguas de Barcelona S.A. (Agbar)) and 20% by Itochu Corporation, Japan.

The smallest and largest group in which this company is consolidated is Capstone Infrastructure Corporation and copies of its consolidated annual report are available from 155 Wellington Street West, Suite 2930 Toronto, ON M5V 3H1, Canada.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
BRISTOL WATER PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Bristol Water plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 31 March 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview

Context

There was no substantial change in the operation of the business during the year that would cause us to revisit the scope of the audit and therefore the scope of the audit remained consistent with the prior year with the exception of the work we performed on the company's adoption of FRS 101 "Reduced Disclosure Framework", which is noted as an area of focus below.

Materiality

Audit scope

Area of focus

Overall materiality: £1,390,000 (2015: £1,070,000) which represents 5% of profit before tax.

The company is structured as a single reporting unit and the audit was carried out by a single audit team.

Provision for impairment of domestic trade debtors.
Classification of expenditure on infrastructure assets.
Valuation of the pension scheme.
Adoption of FRS 101.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
BRISTOL WATER PLC

Area of focus	How our audit addressed the area of focus
<p><i>Provision for impairment of domestic trade debtors</i></p> <p>Refer to page 74 of the Corporate Governance Report and note 15 of the financial statements</p> <p>The recoverability of customer debts is always a key issue for water companies. Even though the cash collection rates have shown clear indications of improvement in recent years, the recoverability is very sensitive to changes in economic circumstances.</p>	<p>We evaluated the model used to calculate the provision and confirmed its consistency with prior years.</p> <p>We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using historical cash collection trends from prior years and the latest available cash collection data for the current year. We also performed sensitivity analysis on the future cash collection rates by major customer category in order to identify the significance of the collection rates used on the overall value of the provision. We found that, consistent with prior years, the level of provision was within our expected range.</p>
<p><i>Classification of expenditure on infrastructure assets</i></p> <p>Refer to page 75 of the Corporate Governance Report and note 11 of the financial statements</p> <p>Expenditure on infrastructure assets is either capitalised as an addition to tangible assets or written off to the income statement, depending on the nature of the work done. Given the size and complexity of the capital programme and how it relates to the company's assessed performance for regulatory purposes, the classification of expenditure requires very significant management judgement.</p>	<p>We tested a sample of expenditure on infrastructure items in the year to supporting documentation, such as contract certificates and invoices, and were satisfied that they had been classified in accordance with the company's accounting policies.</p>
<p><i>Valuation of the pension scheme</i></p> <p>Refer to page 74 of the Corporate Governance Report and note 24 of the financial statements</p> <p>We focused on this area because the defined benefit pension scheme surplus is material to the financial statements and is sensitive to a number of subjective assumptions such as discount rates, inflation and life expectancy.</p> <p>Also, the company closed the scheme for future accruals during the year, leading to a curtailment gain in the current financial year.</p>	<p>We formed an independent expectation of the key pension valuation assumptions, including the discount rate, inflation rate and life expectancy, compared them with those adopted by the company and found them to be in line with our expectations.</p> <p>We formed an independent expectation of the curtailment gain in the year and found the amount to be in line with our expectation.</p> <p>We checked the accuracy of the data provided to the actuary by the company and used in their valuation, in particular the contributions paid by the company.</p> <p>We obtained third party confirmations of the valuation of the pension assets.</p> <p>We also obtained appropriate evidence for the competency and qualifications of the actuary who performed the valuation, and checked the information provided by the actuary to the financial statements.</p>

Area of focus	How our audit addressed the area of focus						
<p><i>Adoption of FRS 101</i></p> <p>Refer to note 5 of the financial statements</p> <p>The Company has adopted FRS 101 "Reduced Disclosure Framework" ("FRS 101"). This resulted in transition adjustments being required for the implementation of the framework in the current year and in comparative periods.</p>	<p>We assessed the appropriateness of the transition adjustments made which included using the impact assessment performed in the previous year to check the completeness of the adjustments and disclosures required under FRS 101.</p> <p>We performed substantive testing over the transition adjustments from existing UK GAAP to FRS 101 which included agreeing to supporting documentation and checking that they were in compliance with FRS 101.</p>						
<p><i>How we tailored the audit scope</i></p> <p>The company is structured as a single reporting unit and the audit was carried out by a single audit team.</p> <p>In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.</p> <p><i>Materiality</i></p> <p>The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.</p> <p>Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:</p>	<p>We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £122,000 (2015: £54,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.</p> <p><i>Going concern</i></p> <p>The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 83, required for companies with a premium listing on the London Stock Exchange.</p> <p>The directors have requested that we review the statement on going concern as if the company were a premium listed company. We have nothing to report having performed our review.</p> <p>The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.</p> <p>As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.</p>						
<table><tr><td>Overall materiality</td><td>£1,390,000 (2015: £1,070,000).</td></tr><tr><td>How we determined it</td><td>5% of profit before tax.</td></tr><tr><td>Rationale for benchmark applied</td><td>We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.</td></tr></table>	Overall materiality	£1,390,000 (2015: £1,070,000).	How we determined it	5% of profit before tax.	Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.	
Overall materiality	£1,390,000 (2015: £1,070,000).						
How we determined it	5% of profit before tax.						
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.						

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

information in the Annual Report is: <ul style="list-style-type: none">materially inconsistent with the information in the audited financial statements; orapparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; orotherwise misleading.	We have no exceptions to report.
the statement given by the directors on page 67, in accordance with provision C.11 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report.

the section of the Annual Report on page 84, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.
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The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

the directors' confirmation on page 67 of the Annual Report, in accordance with provision C.21 of the Code, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
the directors' confirmation on page 67 of the Annual Report, in accordance with provision C.21 of the Code, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

OTHER VOLUNTARY REPORTING

Opinion on additional disclosures

Directors' Remuneration Report

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matter on which we have agreed to report by exception

Corporate governance statement

The company's voluntary Corporate Governance Statement includes details of the company's compliance with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the company were a premium listed company. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement Of Directors' Responsibilities set out on page 68, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume

the directors' explanation on pages 73 to 75 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.
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The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(b) of the Financial Conduct Authority and provided a statement in relation to longer-term viability, set out on pages 48 to 49, required for companies with a premium listing on the London Stock Exchange. The directors have requested that we review the statement on longer-term viability and also the directors' statement that they have carried out a robust assessment of the principal risks facing the company as if it were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements 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.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
14 July 2016



The logo for Bristol Water, featuring the words "BRISTOL" and "WATER" in a bold, sans-serif font. "BRISTOL" is positioned above "WATER". Below the word "WATER" are three horizontal wavy lines of varying lengths, suggesting water or a river.

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