

ANNUAL REPORT 2013

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



Welcome...

... to this fresh and new style Annual Report for Bristol Water. It combines the requirements of an Annual Report with a more performance-oriented review, based on the Aims, Outcomes and Measures of Success that we have presented to our customers and stakeholders in our Strategic Direction Statement (SDS) 'Water in the Future'.

Our aim is to strike the right balance between our financial and operational performance, putting emphasis on how we meet our customers' expectations by providing an outstanding water service. We also focus on our operational achievements, improving efficiency, meeting regulatory requirements, and ensuring we maintain a transparent and risk-based business approach.

On the subject of future regulation, we agree with Ofwat's wish to cut the regulatory burden and put in place a risk-based approach aimed at delivering a more targeted and focused regulatory reporting regime. This will benefit everyone involved in the water industry, from the companies themselves to all customers and stakeholders.

Indeed, this new style report reinforces Ofwat's aim by simplifying and streamlining the reported data while removing the unnecessary duplication that existed previously.

We have also included a set of Key Performance Indicators (KPIs), which present a summary of our performance and achievements over the year compared to the outcomes that we defined together with our customer challenge group, the Local Engagement Forum (LEF).

We hope you find this report interesting and informative. The nature of it will no doubt adapt over time as the relationship with our customers and stakeholders evolves and the needs of our business change.

In the meantime though, we would be interested to know what you think of the new style, so please email your views to corporate.affairs@bristolwater.co.uk. We look forward to hearing from you.

Keith Ludeman

Chairman

10 June 2013

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BRISTOL WATER plc supplies water to approximately 1.2 million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

HIGHLIGHTS

£88.5m

OF CAPITAL INVESTMENT IN YEAR –
HIGHEST ANNUAL INVESTMENT IN COMPANY’S HISTORY

Regulatory leakage targets beaten again – achieving lowest level in company’s history

95%

OF CUSTOMERS SATISFIED
WITH BRISTOL WATER’S
SERVICE DELIVERY

99.99%

OF WATER SAMPLES
COMPLIED WITH DWI
STANDARDS

2nd place

IN OFWAT’S CUSTOMER SERVICE
RANKING (2011/12)

TURNOVER INCREASED TO

£114.2m

(£108m in 2012) reflecting the increase in prices allowed by Ofwat, offset against a decline in demand from metered customers

PROFIT AFTER TAX UP TO

£13.1m

(£7.2m in 2012) due mainly to an increase in operating profits, lower indexation related interests and lower deferred tax charge

RATIO OF NET DEBT TO RCV (GEARING)

62%

Net debt was £240.4m representing approximately 62% (2012:54%) of a Regulatory Capital Value of £389m

CHAIRMAN'S STATEMENT



This is my first Chairman's Statement for the Annual Report since joining Bristol Water, a company of which I am already very proud to be a part.

In the following pages, I review the highlights of the year's performance and in the Operating and Financial Review Report on pages 9 to 40, you will find details of the measures of success in each of our key performance areas and our progress against the targets.

Water resources

The weather always plays a major role in our business and this year was no exception. Following two very dry winters, we started the financial year with the prospect of drought restrictions. Indeed, by April, a third of the customers in the country were suffering hosepipe bans. Thanks to the professionalism and dedication of our staff, the success of our leakage reduction work and tight management of our water sources, we were able to avoid any restrictions for our customers. As we all know, unusually high rainfall from April through much of the rest of 2012 replenished the country's water resources, rapidly filling our reservoirs and restoring the security of supply.

Customer service achievements

Our focus on providing excellent customer service continues to deliver outstanding results. In 2011/12, Ofwat's Service Incentive Mechanism (SIM), the benchmark used by the regulator to measure customer service in the UK water industry, ranked us in second place out of 21 companies with a score of 85 out of 100. I am glad to say that our 2012/13 score has increased to 86, and our ranking will be available in July 2013.

We have also beaten our leakage target again, achieving the lowest level of leakage in our history. While the relatively mild winter certainly helped reduce the number of burst pipes, the rapid deployment of our experienced detection and repair teams has also made a major contribution. This, along with a commitment to manage leakage in a more controlled and effective way, has meant that the risk of having to impose water restrictions following sustained periods of dry weather has been minimised. Needless to say, achieving this company record-breaking result does not mean we are complacent; we will continue to commit both time and resources into delivering even lower levels of leakage in the future as we know that this is a key priority for our customers.

Top water quality is always our highest priority and on this we have also delivered an outstanding result. Over 99.99% of the legally required samples met UK and European Community standards – the most rigorous water quality test measures in the world, and a performance of which our operational teams can be very proud.

Delivery of capital investment programme

The 2010-15 capital investment programme is the largest in the company's history and continues to make good progress. Although there have been obstacles to overcome with some of the projects, the different schemes are continuing at a steady pace and we remain on track to deliver all of the required outputs on time.

During the year the company invested £88.5m – the largest ever level of annual capital expenditure and significantly more than the previous highest investment of £60.4m in 2011/12. This is a tremendous achievement and demonstrates the company's commitment to deliver a programme designed to improve our level of service. We are grateful for the positive way in which our customers have responded to the disruption caused by the works across our supply area. We have conducted extensive customer and stakeholder communication campaigns to accompany the wide range of on-going and planned projects.

Our vision –

“to meet our customers' expectations by providing an outstanding water service in a sustainable and affordable way”.

Building for the future

We are working within a rapidly changing regulatory environment and have been heavily involved with the regulators, the water industry and other stakeholders on proposed changes in the regulatory framework, the companies' licences and the process for the next Price Review (PR14).

In addition, the draft Water Bill, the requirements of the draft Water Resources Management Plan (dWRMP) and Ofwat's new price review process have all brought new challenges which will continue during the next year. We have sought to meet these challenges positively and to respond as proactively as possible to the current agenda for change, always aiming to find the right solutions for our customers.

Two highly important strategic documents were published this year. One was our long-term 25-year SDS “Water in the Future”, which is built on our company vision – “to meet our customers' expectations by providing an outstanding water service in a sustainable and affordable way”. The other document was our dWRMP, which is currently with Defra for review before consultation. This will be further developed into our Water Resources Management Plan (WRMP), due to be published in early 2014. The production of both documents followed widespread consultation.

In 2011/12, with a score of 85 out of 100, we were ranked 2nd in the industry for customer service



As part of our long-term strategy to meet the future need for water in our supply area, our plans to build a second reservoir in Cheddar, close to our existing one, have now progressed to the public consultation stage. The public consultation process has involved exhibitions attracting nearly 500 visitors, the development of a website and engaging with schools in the locality. There is a high level of interest in the 9,000 million litre reservoir, and the design footprint involves the provision of nature trails and bird hides which will increase the biodiversity of the area and provide new habitats. The planning application will be submitted at the end of this year. The new reservoir is vital to serve the growing customer population since the Government's Office of National Statistics (ONS) has projected that population and housing in the region will grow at a higher rate than the long-term average.

Following Ofwat recommendations, we have created the LEF to increase customer involvement in developing our company Business Plan and to enable us to engage with key stakeholders. The LEF draws on its members' expertise to challenge us on our proposals on behalf of our customers. This is a positive and

helpful process and we are grateful for the significant commitment and focused approach that the volunteers of the LEF have shown. Within this framework, we identified a set of customer-supported outcomes that have formed the pillars of our SDS. Extensive customer research is also being carried out, the results of which will contribute to the Business Plan to be submitted to Ofwat in December 2013. The LEF continues to help us specify and oversee our customer research for PR14 and to agree the outcomes for customers that our Business Plan will need to address.

Financial performance

On the subject of financial performance, the stable progress that I reported in September 2012 continues. This is the third year of the current 5-year regulatory period to March 2015 and we remain firmly focused on satisfying customer needs and delivering the outputs specified in the last Price Review.

Our business efficiency initiative programme, under the banner of 'improving by better, simpler working', has progressed as planned, making improvements in the way we work for our customers. Notable achievements

have included the implementation of best in class procurement strategies and more robust capital expenditure and project management processes. We are also investing in improving our ability to provide excellent customer service.

Being a responsible business

I believe that effective corporate governance is critical for any company particularly for one trusted by its customers to supply the highest quality water services. A report covering our approach to corporate governance is included in this Annual Report and I believe it clearly demonstrates our compliance with the UK Code of Corporate Governance, and the importance we attach to conducting our business in a transparent and sustainable way.

On the environmental side we continue to meet and beat all our targets. A prime example is our work on promoting water efficiency among our customers through the distribution of free water saving kits and business water efficiency audits which have helped our customers save a total of 956,000 litres of water each day.

A series of innovative community programmes ensure we remain in the forefront of involvement with the many and varied communities we serve in our supply area. One recent example is a water saving challenge for school children that has resulted in a saving of 10,346 cubic metres of water since we introduced it late last year, and another recent example is for children in some of our inner-city schools to experience the development process of rearing trout in the classroom and then releasing them back into the natural environment. We also continue to ensure that all our reservoirs remain at the highest assessment levels for Sites of Special Scientific Interest.

Firmly championed at Board level, the health and safety of all those who work with us and who visit our sites is vitally important. A series of initiatives has ensured positive

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engagement throughout the company with the introduction of a regular H&S newsletter, poster campaigns to promote employees well-being at work and home, centralised hazard reporting and visitor H&S site inductions. We have also developed a comprehensive safety handbook for the induction and training of our contractors.

Finally, I would like to pay tribute to all our employees for their continued support, enthusiasm and excellent contribution to another successful year. We really do value our dedicated, highly professional workforce who continue to rise to the challenges faced by the industry and the company, and I am delighted to be part of this team.

We look forward to the coming year confident in the knowledge that, whatever the effect of the changing regulatory landscape, we will continue to be a committed, first-class water company with an excellent record of delivering high quality service to our customers.

Keith Ludeman
Chairman
10 June 2013





£88.5m

of capital
investment
in the year –
highest
annual
investment
in company's
history

During the year we supplied an average of 257 million litres of water per day from our network of 139 treated water storage reservoirs, 16 water treatment works, 164 pumping stations and approximately 6,670 kilometres of mains.

OPERATING AND FINANCIAL REVIEW REPORT

OPERATING AND FINANCIAL REVIEW REPORT

Our business



Bristol Water is one of 10 regulated Water only supply Companies (WoCs) in England and Wales. We are the licensed monopoly provider of water services in the Bristol area, and as such are regulated by the Water Services Regulation Authority - Ofwat.

Centred on the City of Bristol, our supply area stretches from Tetbury in the north to Street in the south and from Weston-super-Mare in the west to Frome in the east.

Our principal business is the supply of water to an area of almost 2,400 square kilometres, covering a population of approximately 1.2 million people.

Our supply operations include the abstraction, treatment and distribution of water to homes, businesses and other premises.

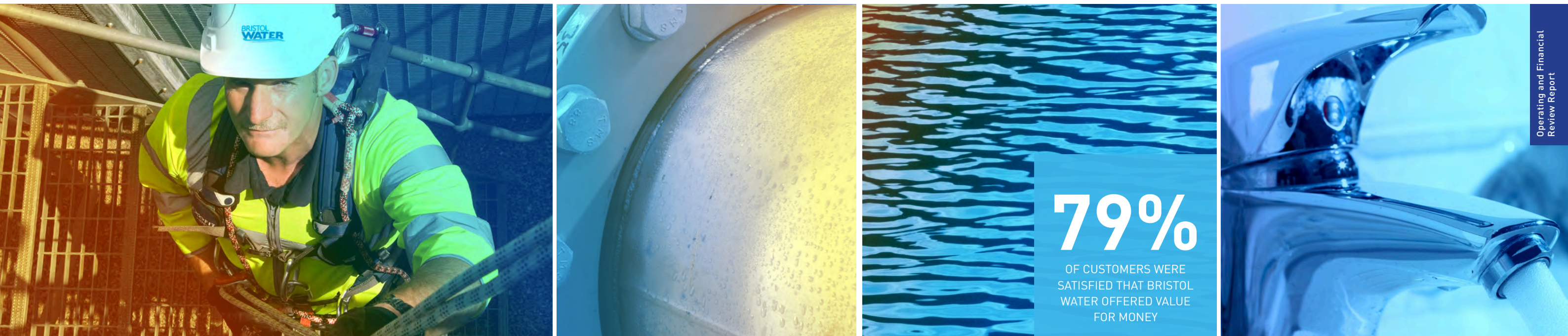
Approximately 73% of the water we supply is delivered to our domestic customers and 40% of these are metered.

During the year we supplied an average of 257 million litres of water per day (ML/d) from our network of 139 treated water storage reservoirs, 16 water treatment works, 164 pumping stations and approximately 6,670 kilometres of mains.

Wastewater services are provided by Wessex Water in our supply area and billing services are provided by Bristol Wessex Billing Services Limited (BWBSL), a joint venture between us and Wessex Water.

Our principal business is the supply of water to an area of almost 2,400 square kilometres, covering a population of approximately 1.2 million people.





Our business

Regulatory framework

The regulatory framework for monopoly water companies in England and Wales is well established and highly transparent and has been in place for over 20 years. Ofwat implements economic regulation through a price cap mechanism, whereby the tariffs charged for the majority of services are limited to increases in inflation plus or minus a 'K' factor. Allowed tariffs are set in real terms to reflect efficient operating costs and permit water companies to earn a real cost of capital (WACC) on Regulatory Capital Value (RCV). Tariffs are adjusted annually for inflation as measured by the UK Retail Price Index (RPI).

The current regulatory period is referred to as Asset Management Plan period 5 (AMP5) and the price determination for this period is referred to as Price Review 09 (PR09).

The profile of the approved prices over the five-year period is as follows:

	2010/11	2011/12	2012/13	2013/14	2014/15
K factor	0.6%	3.9%	3.9%	3.9%	3.8%

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 when water is unfit for human consumption.

- The Environment Agency, which regulates licences for water abstraction and preserves and improves the quality of rivers, estuaries, coastal waters and groundwaters, through pollution control powers and the regulation of discharge contents.
- The Consumer Council for Water, which is an independent organisation whose role is to provide information of use to consumers and to promote the interest of all water consumers.

Next price review process

In January 2013, Ofwat released its consultation on the framework for PR14, which is the process for setting water prices for the five-year period from 2015 to 2020.

Ofwat intends to set separate price control for retail and wholesale services. The wholesale price control will cover the technical services that companies provide – such as collecting and treating water and transporting it through a network of pipes to a customer's property. The retail price control will cover customer-related services, such as sending customers' bills and responding to their enquiries. Non-household customers will be subject to separate retail price control.

We are working closely with Ofwat to establish the outcomes we will deliver between 2015 and 2020 at fair prices for our customers. During the last year we have been preparing for PR14, setting out our plans for the future.

As part of this work, we published, in December 2012, 'Water in the Future'. This sets out our strategy for the next 25 years and was produced after extensive engagement with customers in order to understand their priorities.

Through the LEF, we have also been working with our stakeholders and customer representatives to ensure that our business planning aligns our customers' preferences and willingness to pay for future water supplies with environmental priorities and other potential impacts.

The LEF has met regularly during the last year to review each stage of our planning process, particularly our interpretation of our customers' priorities, and to provide valuable input into our thinking. Over the coming few months, the LEF will be asked to challenge our proposals further to ensure that we produce a Business Plan in December 2013 that truly reflects our customers' preferences.

We have also prepared our dWRMP. This vital document, produced every five years, is an integral part of our investment planning process and sets out how we intend to meet customers' water needs over the next 25 years. This will be further developed into our WRMP, due to be published in early 2014.

Over the next 25 years, the population in our area is expected to grow at the same high rate as the south east of England and according to the Office of National Statistics, will increase by 25% to 1.5 million. This will have a significant effect on demand for water.

When assessing future water resources, we have to consider both the predicted effects of climate change and the need

to protect the environment, for example maintaining water levels in rivers and other watercourses. Scarce resources and increased demand for water suggest a future of water shortages which we must obviously plan to avoid.

Current projections suggest that we could experience a deficit of water from 2020 onwards, and by 2030 we will need to find an extra 50 million litres of water a day to maintain current levels of service to this larger population.

A key initiative to meet this target will be to reduce leakage even further despite us already having one of the lowest levels of leakage in the UK. By 2020, we aim to reduce leakage to 15% of water produced (compared to over 20% in 2009/10).

Beyond 2019/20, we aim to get total water losses down to 12% of the demand for water in dry weather through the introduction of a number of initiatives. The key initiatives include metering homes on change of occupier, providing water saving fittings and advice to reduce water consumption, and carrying out water efficiency audits for businesses.

Finding additional water resources is also a priority, and the proposed second reservoir at Cheddar, which will provide up to 16 million litres of water a day, is well advanced in terms of design and planning. Other additional resources that may be required after 2030 include an additional small reservoir in our supply area and bulk transfers of water from neighbouring water companies.

Current performance



The company's performance is assessed through a number of KPIs. During the year the Board carried out an extensive review of the KPIs to align them with the vision defined in our strategy document 'Water in the Future':

'To meet our customers' expectations by providing an outstanding water service in a sustainable and affordable way'.

The following pages describe these KPIs, and our performance against targets.

OPERATIONAL KPIs

Highly reliable

Outcome	Measure	Units	Annual Target	2012/13	2011/12
Reliable supply	Unplanned customer minutes lost	Minutes	19.2	9.2	11.0
	Asset reliability	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable

Excellent quality

Outcome	Measure	Units	Annual Target	2012/13	2011/12
Safe drinking water	DWI standards ¹	%	99.96%	99.99%	99.96%
Water is good to drink	Negative water quality contacts	No.	2,500	2,317	2,502

Environmentally sustainable

Outcome	Measure	Units	Annual Target	2012/13	2011/12
Efficient use of resources by company	Leakage	ML/day	50	42	43
Sustainable environmental impact	Carbon emissions	Tonnes CO ₂	45,000	41,950	47,488

Responsive to customers

Outcome	Measure	Units	Annual Target	2012/13	2011/12
Satisfied customers	Ofwat measurement of customer service (SIM)	Score/100	85	86	85
	General satisfaction survey ²	%	95%	95%	92%
	Value for money satisfaction	%	Additional measure	79%	n/a ³
Easy to contact	Ease of contact from survey	%	99.0%	99.0%	99.5%
Bills are accurate and easy to understand	Negative billing contacts	No.	11,585	9,290	11,585

Best people right culture

Outcome	Measure	Units	Annual Target	2012/13	2011/12
Safe working practices	No. of accidents reportable to Health & Safety Executive (HSE) ^{1,4}	No.	Additional measure ⁴	5	1
Skilled & motivated workforce	Staff satisfaction survey	% of respondents who like their job	Additional measure	91%	n/a ⁵

Sustainable business

Outcome	Measure	Units	Annual Target	2012/13	2011/12
Investor confidence	Credit rating	Moody's rating	Baa1	Baa1	Baa1
Fair return to investors	Post tax return on capital	%	4.9%	4.9%	4.5%
Highly reputable	Stakeholder survey ⁶	%	Additional measure	83%	n/a ³

¹ Based on 12 months to 31 December ending in the relevant financial year.

² Combined score - from monthly customer satisfaction surveys (96%) and annual domestic customer tracking survey (93%).

³ These KPIs were introduced during the year; therefore, target and last year %s are not available.

⁴ 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. As a reference, three year rolling average is 4 accidents.

⁵ Last survey was conducted in 2009 with a 74% response.

⁶ Score from annual domestic customer tracking survey; a new stakeholder survey to be introduced in 2013/14.



95%

OF CUSTOMERS SATISFIED
WITH BRISTOL WATER'S
SERVICE DELIVERY

Highly reliable

Providing a highly reliable water service 24 hours a day, every day of the year is our core business. Reliability and resilience in providing a sufficient supply means that our customers will continue to be able to use water without any restrictions and from market research results we know that this is what they expect.

Reliable supply

Our performance is judged principally on the number of minutes without supply per property and our capacity to avoid a service failure of our assets, both above ground (non-infrastructure assets) and below ground (infrastructure assets). Our performance of 9.2 minutes without supply per property in 2012 is an improvement on last year's performance of 11.0 minutes. This reduction has been due to our increased focus on reducing leakage levels, which means that we target leak identification before it impacts customers through loss of supply. Mild weather conditions have also contributed to this success, with fewer burst pipes and operational incidents causing interruptions to water supplies.

Ofwat's target to maintain 'stable' serviceability in managing our assets effectively was achieved, ensuring our customers continue to receive a high standard of service with few or no interruptions to their supply.



Excellent quality

Providing excellent quality water is fundamental to our business and the water we supply meets the most rigorous quality standards in the world. Water quality is the unquestioned top priority for Bristol Water and the customers we serve.

Safe drinking water

Sophisticated treatment processes are in place to ensure that all the water we produce is clear, clean and fresh. Proof of this lies in our water quality results, published by the Drinking Water Inspectorate (DWI) annually.

Each and every day of the year, our team of Water Quality Samplers collects samples in specially refrigerated vehicles that travel the length and breadth of our 2,400 square kilometre supply zone. The sampling schedule is aligned to a sophisticated computer controlled programme that ensures water quality is checked right from source to customers' taps.

Each year around 91,000 compliance tests are carried out on samples taken from both customers' properties and our own treatment works, with an additional 240,000 tests being carried out following engineering works. The results are processed by a laboratory information management system, to ensure that the data goes to all personnel involved with water production and also to the Drinking Water Inspectorate, who scrutinise the quality of the company's drinking water.

We are pleased to report that our water quality performance in 2012 was excellent - 99.99% of the legally required samples met the UK and European Community standards, and was above the industry average. Only 12 tests of the 91,000 carried out in the period were not within the expected limits.

The World Health Organisation has recognised that the most effective way of consistently ensuring the safety of drinking water is through a comprehensive risk assessment and risk management approach that encompasses all steps in water supply from catchment to customers' tap. Our Drinking Water Safety Plan (DWSP) approach is used to identify any potential weaknesses in our water treatment and distribution systems by applying effective management control systems and operational plans to reduce and manage any risks to water quality.



99.99%

OF WATER SAMPLES
COMPLIED WITH DWI
STANDARDS

DWI water quality results for Bristol Water

	2009	2010	2011	2012
Overall drinking water quality*	99.97%	99.96%	99.96%	99.99%

*Overall drinking water quality as represented by mean zonal compliance for 39 parameters based on calendar year.

We believe that catchment management is good environmental management. If we can identify and minimise the risk of problems before they occur, we may avoid the need for new chemical and energy-intensive water treatment techniques, as well as improving the overall environmental quality of our water sources.

One of our initiatives is to work closely with the producers and distributors of metaldehyde (the ‘Metaldehyde Stewardship Group’) to provide advice and training to farmers and their suppliers. Metaldehyde, a selective pesticide used by farmers and gardeners to control slugs and snails, can have a significant impact on the quality of the water generated from agricultural run-off. This run-off can be from individual farms and fields close to our catchment reservoirs and flow into water courses feeding into our reservoirs. The aim is to make landowners and farmers aware of potential water quality issues when they apply pellets to crops, and ensure they follow best practice to avoid them getting into ditches and watercourses. We also encourage them to reduce the quantity of metaldehyde they use and the frequency with which they apply it.

Following the success of these initial projects, we have expanded our work on catchment management to include intensive studies on water quality around key sites.

Water is good to drink

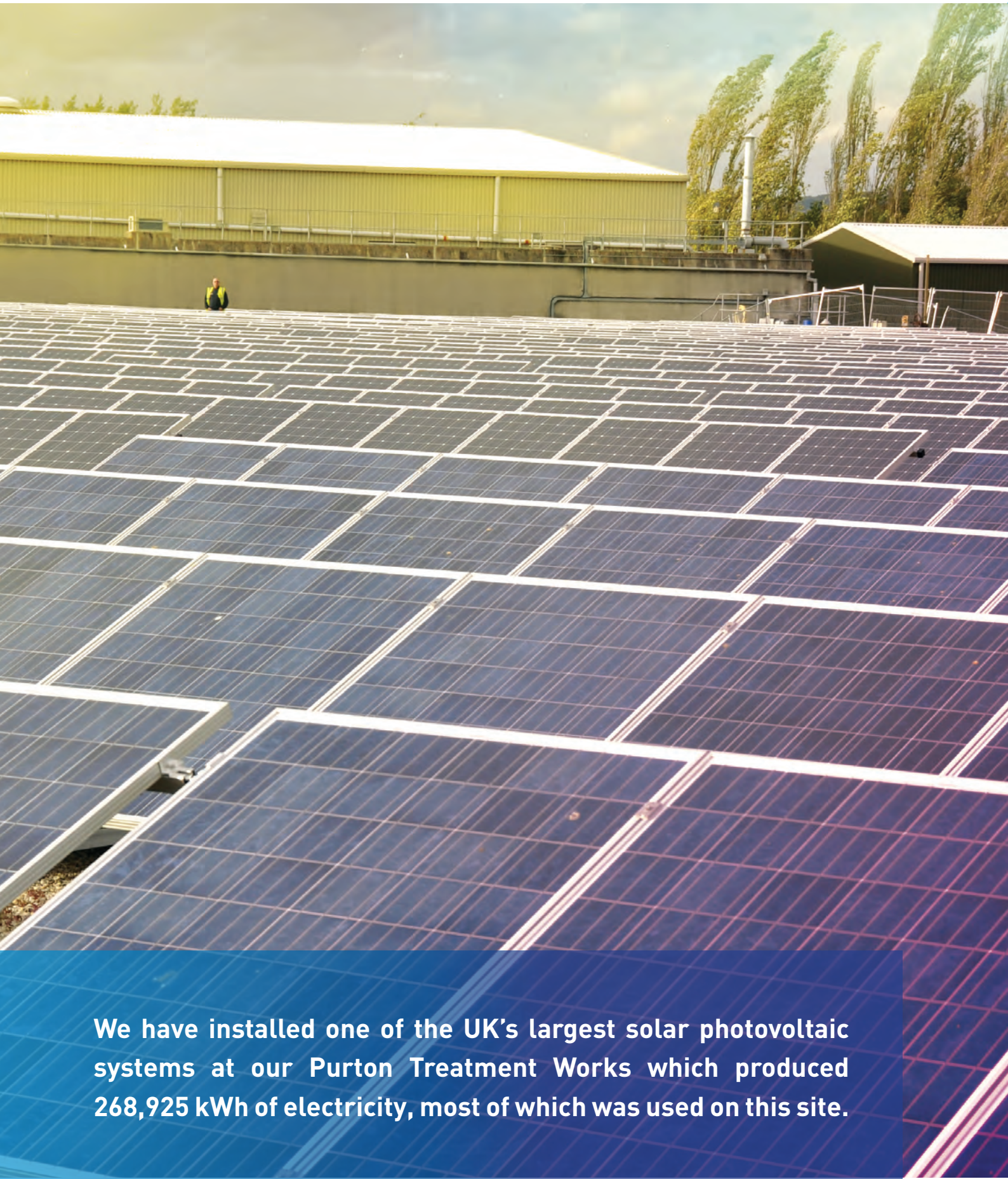
The key measure we use to assess customers’ views of whether water is good to drink is the number of negative contacts from customers about the quality of water they receive. In 2012, we received 2,317 such contacts compared with 2,502 in the previous year. 53% of these contacts were due to the appearance of the tap water and the rest due to taste issues. In order that we can reduce the number of negative water quality contacts we receive, we undertake regular maintenance or flushing of our network. Flushing is carried out to clean the mains to improve water quality. This year we flushed 774 kilometres of pipes, benefiting more than 96,000 properties.

Any work on our network is preceded by a risk assessment to ensure that we identify any likely adverse effect of the essential work impacting on our customers. This involves extensive hydraulic modeling of the network using cutting-edge computer programs, and allows us to plan the work to minimise any impact on water quality or continuity of supply. In many instances, customers are totally unaware of work being carried out in their vicinity.

We understand and accept that some of our customers do not like the slight taste and smell of chlorine in their water supply. We always aim to maintain the minimum chlorine residual in the supply while still maintaining excellent bacteriological quality control.



One of our initiatives is to work closely with the producers and distributors of metaldehyde (the ‘Metaldehyde Stewardship Group’) to provide advice and training to farmers and their suppliers.



We have installed one of the UK’s largest solar photovoltaic systems at our Purton Treatment Works which produced 268,925 kWh of electricity, most of which was used on this site.

Environmentally sustainable

Our vision is to meet our customers’ expectations by providing an outstanding water service in a sustainable and affordable way. To do so we must deliver for the environment as well as for our stakeholders. We must ensure we make efficient use of the company’s resources and assist customers in becoming water efficient, as well as minimising the environmental impact of our business operations.

The key initiatives undertaken are explained in more detail in the Corporate Responsibility Report on pages 41 to 50.

Efficient use of resources by company

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. Managing leakage in a more controlled and effective way means that the risk of having to impose water restrictions following sustained periods of dry weather is minimised, the necessity to abstract water is reduced, and disruption to customers when making repairs is decreased.

We are pleased to report that, for the second year running, we have beaten our regulatory leakage targets by a significant margin. This is due to our strong commitment to drive leakage down using our experienced repair and detection teams, helped by a relatively mild winter period which saw fewer burst pipes.

	2008/09	2009/10	2010/11	2011/12	2012/13
Leakage - million litres of water per day (ML/d)	54	53	50	43	42
Ofwat target	54	54	52	51	50

Sustainable environmental impact

We measure our environmental impact using our carbon emissions. Almost 90% of our carbon emissions come from electricity use associated with treating and distributing water. Improved pumping efficiency, lower leakage and reduced consumption of water, together with improved energy efficiency of our buildings and vehicle fleet, will help us achieve lower carbon emission levels.

We are participants in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint. Our carbon footprint during the year was 41,950 tonnes, approximately 12% lower than the last year’s figure of 47,488 tonnes. Most of this reduction comes from a reduction in our need for electricity during the year.

Exceptionally high rainfall during the year meant we were also able to make use of water sources requiring less energy to treat, therefore cutting back on water sources that required more energy. We also installed one of the UK’s largest solar photovoltaic systems at our Purton Treatment Works which produced 268,925 kWh of electricity, most of which was used on this site. Our total electricity consumption during the year was 73,881 MWh, approximately 12% lower than on last year’s figure of 84,590 MWh.



Lowest levels of leakage in company’s history achieved



Responsive to customers

We understand that customers' requirements and expectations change over time and we know that we will have to continue to improve the services we provide and the way in which we provide them if we are to meet their expectations.

Some more initiatives regarding this area are explained in more detail in the Corporate Responsibility Report.

Satisfied customers

The SIM was introduced by Ofwat to encourage water companies to provide better customer service, and measures how water and wastewater companies compare in respect of customer satisfaction. SIM involves measuring customer contacts including the number of times a customer is unable to get through on the phone, the number of calls received because something has gone wrong and the number of written complaints. Asking customers about their experience is important to this measure, and an independent survey team contacts 800 customers for each water company over the year. These customers' answers are used to calculate the other parts of the companies' score and each score reflects the number of issues and how well they are resolved.

In 2011/12, with a score of 85 out of 100, we were ranked second in the industry for customer service. The 2012/13 ranking will be available in July 2013.

Apart from the measure used by Ofwat, we also monitor customer satisfaction through monthly and annual customer satisfaction research carried out by independent agencies. In the most recent annual survey carried out in February 2013, 93% of respondents stated that the service they received was excellent, very good or fairly good. A gratifying 79% of respondents were satisfied that Bristol Water offered value for money.

Priority areas for improvement were identified by customers and included the prompt resolution of problems, handling calls and letters efficiently and providing value for money. Customers did however acknowledge that having convenient payment options was invaluable and that Bristol Water did help people who were struggling to pay their bills.

Customers also identified areas where service levels should be maintained – providing accurate bills, carrying out work efficiently and responding quickly to emergencies.

Easy to contact

Ensuring customers are able to contact us easily is important and we measure this through our monthly research programme by determining how easy it is for customers to contact us by telephone.

In the monthly surveys, a sample of customers who have contacted us either over a billing or operational issue are interviewed to measure how well we responded to their enquiry. The average response over the year was 96% for overall customer satisfaction and 99% for ease of contact.

Examples of how we have responded to customer requests for improvements include extending customer call centre hours plus providing 'here to help' advisers on engineering projects (ensuring those people affected by vital but disruptive work have a point of contact on site). Following consultation with customers, we have also developed a new look website with improved functionality.

Bills are accurate and easy to understand

We understand that our customers want bills that are clear, accurate and easy to understand. Approximately 85% of all customer telephone calls relate to bills and payment, with the vast majority just to complete simple transactions. Last year however, the number of unwanted billing contacts fell by 20% with just over 9,000 contacts being made. Our target over the long-term is to reduce this to less than 3,000 per year. Improved billing information for customers, along with smarter technology including online billing and automated meter readings will help us to achieve this.





Best people, right culture

We know that to continue being a successful water company we need to have the best people and maintain the right culture within the business. We value our workforce and we do all we can to care for them, motivate them and develop their many and varied skills. Our business operates 24 hours a day every day of the year so there are special welfare needs to consider. We must also ensure all our contractors share our vision.

Safe working practices

We had five Health & Safety Executive (HSE) reportable accidents during 2012 compared to one accident in 2011, however none of these were investigated by HSE.

Health and safety is paramount to our future success and we focus strongly on our health and safety performance. Strong employee engagement is a key contributor to our performance levels and we place significant emphasis on maintaining and strengthening it throughout the business.

A host of initiatives to improve the health of our staff and to reduce the risk of accidents were introduced successfully during the year. These include paperless accident reporting, a hazard reporting system with a charitable donation for every reported hazard, a visitor induction programme and a health and safety newsletter. We are currently working on a programme where all contracting partners are inducted to the same high standards of health and safety that we apply within the business.

The Health and Safety Action Group, made up of a number of representatives across the business, has also been proactive and launched several promotional campaigns to highlight employee well-being in both their workplace and home.

Health and safety is all about continuous improvement. The challenge to eliminate reportable accidents to the HSE by 2040 is a powerful incentive to ensure everyone is committed to putting health and safety at the top of their agenda so we can achieve this target.

Skilled and motivated workforce

Having a skilled and motivated workforce is key to ensuring customers receive an outstanding water service. Through the appraisals process, performance, future objectives, training and development needs are discussed with employees. We also carry out employee engagement surveys and while we recognise that not all employee feedback will be positive, we continue to review our working practices and commitment as a responsible employer. Based on the employee engagement survey commissioned last year, following the annual staff briefing, 91% of respondents declared that they liked their job – an increase of 17% on the previous survey, and 86% were proud to work for Bristol Water. Important areas for improvement were also identified, for example, 44% of respondents disagreed that the IT systems we use help us to carry out our jobs more effectively. Following this feedback, we are implementing several new computerised systems which should increase efficiency and performance.

Sustainable business

Providing water is a long-term business and we have been doing it for over 166 years. To be a sustainable business means being efficient in the way we spend customers' and investors' money. This will help us retain the confidence of our investors and maintain returns in line with the expectations of the financial markets. It is also important for us to remain a highly reputable company with our customers, regulators and other key stakeholders to maintain their confidence in our ability to deliver for them. We are making sure we are as efficient as we can be, in order that customers' bills are kept as low as possible.

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

Investor confidence

Through open and continuous communication, we maintain investor confidence in order that we can secure money to invest in the business to deliver its long-term strategy. We have maintained the investment grade rating required under our licence. Our public rating with Moody's remains Baa1 with stable outlook.

Fair return to investors

To be a sustainable business, it is important that returns are fair and sufficient to attract investors to fund the investment required.

Our post tax return on capital for the year was 4.9% (2012: 4.5%), which is in line with our Final Determination.

Highly reputable

Market research has consistently shown that the majority of customers trust us and believe we provide a high standard of service. Our annual customer satisfaction survey also revealed that 79% of respondents were satisfied that Bristol Water offered value for money. We included an additional question in this survey to determine whether customers felt that Bristol Water had a good reputation and 83% of participants responded positively.

An annual research survey will be carried out to explore how our corporate reputation influences and is influenced by all the ways in which the company projects its image, behaviour, communication and brand. Interviews will be held with key influencers within our supply area including MP's, Councillors, business leaders, specialist stakeholders and water industry regulators.



Post tax return on capital for the year was 4.9% which is in line with our Final Determination

Financial KPIs

For the year ended 31 March 2013

	2013	2012
	£m	£m
Turnover	114.2	108.0
EBITDA	61.7	56.7
Operating profit	26.9	24.5
Profit before tax	15.4	11.1
Profit after tax	13.1	7.2
Capital investment before grants & contributions	88.5	60.4
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	240.4	193.0
RCV	389.0	354.3
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	62%	54%

OPERATING AND FINANCIAL REVIEW REPORT

Turnover was £114.2m (2012: £108.0m), reflecting the 9.1% increase in prices allowed by Ofwat in respect of inflation (5.2%) and the 'K' factor (3.9%), and a decline in demand from metered customers. Despite the decline in water demand, revenue from metered customers continued to increase as a result of the price increase, customers switching from an unmeasured basis of charge, and new connections.

Daily average water into supply was 257 MI/day (2012: 265 MI/day), 2.6% lower than last year reflecting the wet weather during what are normally the months of peak summer demand.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by £5.0m to £61.7m reflecting an increase of £6.2m in turnover as offset by an increase of £1.2m in operating costs. Increase in operating costs is predominantly driven by general inflation and worsening of collections from our customers.

Operating profit increased by £2.4m to £26.9m reflecting the increase of £5.0m in EBITDA as offset by an increase of £2.6m in depreciation cost. Increase in depreciation is due to the increase in capital expenditure (£1.7m) and the depreciation charge on infrastructure assets (£0.9m).

Profit before tax increased by £4.3m to £15.4m reflecting the increase of £2.4m in operating profit and the decrease of net finance costs by £1.9m to £11.5m. The decrease of net finance costs predominantly reflects lower indexation on index-linked debt.

Profit after tax, comprising profit before tax of £15.4m and a tax charge of £2.3m, was £13.1m. The tax charge of £2.3m represents an effective tax rate of 15% (2012: 35%). The principal reason for the effective tax rate being lower (2012: higher) than the standard corporation tax rate of 24% is the impact of reduction in corporation tax rate to 23% as of 1 April 2013, which reduces the deferred tax liability by £1.5m.

Turnover was £114.2m reflecting the 9.1% increase in prices allowed by Ofwat in respect of inflation (5.2%) and the K factor (3.9%)



Work that has been in progress during the year includes the following key projects:

- The £15m Bristol Resilience scheme, which involved laying a 10.5 kilometre pipeline through the heart of the city of Bristol together with the construction of a new pumping station. The project will bring greater security of supply to over 150,000 consumers who currently rely on a single source for their supply. Construction work on this project was completed on time despite unforeseen geological conditions.
- The £23m scheme to renovate 58 kilometres of the trunk mains network through large parts of Bristol and North Somerset continued and will be on-going during this 5-year regulatory period.
- Over 65 kilometres of the distribution mains network that was in poor condition was replaced during the year.
- Two large diameter strategic trunk mains schemes, that will meet increasing demand in North Bristol and Weston-super-Mare, are substantially complete and commissioning is in progress.
- The programme to enhance the treatment process at five treatment works by installation of ultra-violet disinfection equipment continued. Three treatment works are now operational, one is under construction and design work is well advanced on the remaining site.
- A £2m scheme to replace the pumping equipment at Chew Stoke pumping station was completed. This is one of the company's larger installations and transfers water from Chew Valley Lake to the relevant treatment works.
- Planning and public consultation process to build a new 9,000 million litre reservoir in Somerset continued. This would be located next to the existing one at Cheddar. The planning application will be submitted at the end of 2013.

In addition to these projects, renovation work on our trunk mains network has progressed during the year in large parts of Bristol and North Somerset and 774 kilometres of pipe have been cleaned, removing sediment that may be present in the pipe and benefiting more than 96,000 properties.

Capital programme

During the year, the company invested £88.5m in capital expenditure. This is our largest ever level of annual expenditure and exceeds the previous highest (£60.4m in 2012) by a significant margin. Capital expenditure on our network is essential to secure and maintain continuity of supply to our customers. The continuing work and investment is a tremendous achievement and demonstrates the company's commitment to delivering the AMP5 capital programme.

The company is aware of the disruption that can result from our improvement projects and we have sought to minimise this as much as possible. We have continued our extensive customer and stakeholder communications campaign to accompany the wide range of projects currently in progress or planned. This is aimed at helping to explain the nature of the work, the impact and the long-term benefits, with the intention of keeping customers informed and aiming to answer their questions in advance.



A £2m scheme to replace the pumping equipment at Chew Stoke pumping station is now complete.

Net debt

The main cash sources for the company to finance its normal operations and the extensive capital programme are the water bills paid by the customers and funds lent by financial markets.

To meet the cash requirement for capital expenditure for the rest of the regulatory period, and to replace the £30m borrowing facility which expired in May 2013, two new borrowing facilities totalling £70m were arranged during the year.

Net debt excluding the 8.75% irredeemable cumulative preference shares was £240.4m (2012: £193.0m), representing approximately 62% (2012: 54%) of a Regulatory Capital Value of £389.0m (2012: £354.3m).

This is a key ratio, which is effectively replicated within the company's banking covenants. The range within which the company expects to operate provides a headroom margin to meet adverse impacts from risks and uncertainties.

The company's policy 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 £12.7m (2012: £72.3m). The reduction of £59.6m from last year is mainly owing to the following:

- cash inflow of £59.4m from operations,
- net cash outflow of £79.8m for capital expenditure,
- repayment of £18.2m debt,
- dividend payments of £14.7m, and
- net interest payments of £6.6m.



Dividends

The company policy is to pay an annual level of ordinary dividends comprising:

- a base level reflecting the cost of capital allowed by Ofwat in the 5-year determination of price limits, adjusted to reflect actual gearing levels and where appropriate actual performance relative to Ofwat's assumptions, 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.

Total base level dividend and dividend in respect of the intercompany loans paid during the year were £11.7m (2012: £4.0m) and £3.0m (2012: £3.0m) respectively. The increase in the base level dividend payments during the year is mainly owing to the change in payment frequency from half yearly to quarterly, and owing to no final dividend payment in May 2011 in respect of financial year 2010/11. Further details of dividends paid and proposed during the year are disclosed in note 21 to the financial statements.

In addition, annual dividends of £1.1m (2012: £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.

Pensions

Pension arrangements for employees are provided partly through the company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The company has a separate section within WCPS for the regulated water business. The Bristol Water section was closed to new employees some years ago. Since that closure all new employees are offered membership of a stakeholder pension scheme.

The triennial valuation of the pension scheme as at 31 March 2011 was completed last year. The total funding deficit as at 31 March 2011 was £2.9m representing a funding level of 98.1%. As a result of the Trustee's advice, the company made deficit contributions of £0.5m and £0.4m in financial years 2011/12 and 2012/13 respectively, and has agreed to make an annual deficit contribution of £0.4m plus inflation until year ending 31 March 2015. The company also increased the regular contributions for the main sub-section from 21% to 28.9% and for the alternative benefits sub-section from 10% to 17.6%, of the relevant payroll costs.

An updated estimate of the scheme's funding deficit at 31 March 2013 indicated a funding deficit of £9.3m. The increase in deficit since the triennial valuation reflects primarily the reduction in the yields available on long dated gilts. The funding deficit of £9.3m compares to £13.3m surplus per FRS17 valuation. The main difference between the funding and accounting positions is due to the use of a different approach to value scheme liabilities. Further financial information in relation to defined benefit and defined contribution pension schemes is disclosed in note 23 to the financial statements.

Regulatory period 2010-15 summary

During the regulatory period 2010-15 the company agreed to deliver the following outputs as part of AMP5:

- Installation of enhanced water treatment at seven treatment works to reduce risks from cryptosporidium, lead and nitrates contamination.
- Installation of surface aeration at our two surface water treatment works to reduce the risk of trihalomethane formations due to zebra mussels.
- Catchment management schemes to reduce metaldehyde contamination.
- Lining of 58.6 kilometres of trunk mains to address customer complaints for iron and discoloured water.
- Construction of major resilience scheme for central Bristol.
- Maintenance of stable serviceability for infrastructure and non-infrastructure assets.
- A reducing leakage target (to 49 ML/d by 2014).
- Preparatory work for Cheddar 2 reservoir.
- Replacing 47.5 kilometres of mains per annum.
- Installing more than 52,000 water meters for existing customers by 2015.

AMP to date progress towards the above required outputs is as follows:

- Three of the seven enhanced water treatment schemes are complete.
- Installation of surface aeration at our two surface water treatment works has been completed.
- Catchment management schemes are progressing as planned.
- Trunk main lining has progressed as planned.
- Construction of major resilience scheme for central Bristol has been completed.
- Maintenance of stable serviceability for our assets has continued.
- Outperformance of our leakage target in each year of the AMP to date (currently at 42ML/d).
- Preparatory Work for Cheddar 2 reservoir is on target.
- 157.7 kilometres of mains have been replaced AMP to date (average c52.6 kilometres a year).
- More than 26,000 water meters have been installed AMP to date.

We believe we are best placed to achieve all the remaining outputs by the end of the regulatory period 2010-2015.



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 the company's management under the supervision of the Board of Directors.

The company recognises the importance and benefits of timely identification, assessment and management of risks that may impact its ability to achieve its strategic objectives. In this respect, the company is committed to prudent risk management practices within the context of an Enterprise Risk Management (ERM) framework. The company maintains a risk register and a comprehensive review is undertaken on a bi-annual basis by the senior managers group and the Board of Directors.

The Audit Committee engages an independent professional audit firm to undertake an internal audit to further refine and strengthen its risk management practices and monitor the implementation of relevant improvements.

“Committed to prudent risk management practices”

The company's Risk Management Strategy sets the following aims:

- raising the awareness throughout the business of the need for risk management;
- integrating risk management into the company's business culture;
- maintaining an enterprise-wide risk management framework and procedures for identification, assessment, control, mitigation, monitoring and reporting of risk; and
- encouraging considered and responsible acceptance of risk as a response to opportunity and uncertainty.

The company's risk management approach is comprehensive and proactive and is supported by the experience and specialised knowledge of the senior management. The company uses a risk matrix to regularly assess and update the net exposure (including mitigating factors) of each known material risk in the following five risk categories:

- Strategic
- Reputational
- Operational
- Regulatory and environmental
- Financial

Material risks faced by the company are elaborated on the following pages.

Strategic

• Ofwat price determinations

The price determinations periodically made by Ofwat limit the prices the company can charge its customers. The conditions of the Instrument of Appointment, including any condition relating to the prices the company can charge its customers, can be modified by Ofwat either by agreement with the company or, following reference to the Competition Commission (CC), on public interest grounds. Implicit within the most recent price determination are assumptions concerning the company's future operating expenditures and the achievement of operating cost savings. If these efficiencies are not achieved, this may be reflected in less favourable outcomes in future profitability and cash flows or in Ofwat's future price determinations. During the year Ofwat obtained the consent of all UK water companies (including Bristol Water) to certain amendments to their Instruments of Appointment which will enable Ofwat to set different price limits for different parts of each water company's business. While these changes do not impact the RPI+/-K formula for price controls on a water company's "wholesale" activities, there is no certainty that Ofwat will retain in future price reviews the RPI+/-K form of price control for "retail" activities related to the provision of services directly to non-domestic customers.

• Failure to deliver capital investment programmes

The company is expected to continue to be required to undertake significant capital expenditures in its business, particularly in relation to new and replacement plant and equipment for water distribution networks and treatment facilities. There can be no assurance that operating cash flows will not decline or that external debt financing and other sources of capital will be available or at similar cost to that assumed by Ofwat in order to meet future capital expenditure requirements. Delivery of capital investment programmes could also be affected by a number of factors and may affect the company's ability to meet regulatory and other environmental performance standards, which may result in sanctions being imposed against it. In addition, the failure to successfully complete its capital investment programmes could adversely impact future calculations of RCV, which could adversely impact Ofwat's determination of future price limits for the company.

Reputational

• SIM and the serviceability assessment

For the 2010-15 period, Ofwat introduced the SIM which compares water companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service they receive. Depending upon the company's relative performance under the SIM, it could receive a reduced or increased revenue allowance when price limits are next reset in 2014. In addition, the company is required to maintain the serviceability of its water assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat may impose a reduced revenue allowance at the next price review. In addition, if performance were to decline, the company may incur additional operating or capital expenditure to restore performance.

Our focus on providing excellent customer service continues to deliver outstanding results. In 2011/12, Ofwat's Service Incentive Mechanism (SIM), the benchmark used by the regulator to measure customer service in the UK water industry, ranked us in second place out of 21 companies with a score of 85 out of 100. Our 2012/13 score has increased to 86.



Operational

• Operational performance

The company controls and operates a large water network and maintains the associated assets with the objective of providing high quality drinking water on a continuous basis. However, its facilities are subject to risks related to premature wear or failure, defects in design, material or workmanship, longer than anticipated down times for maintenance and repair, energy shortages, malicious intervention, failure by a supplier, human error, unavailability of access to critical sites or key staff, labour disputes, pollution or contamination and other events. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of each facility. Management also has limited control over future energy or chemical costs, abstraction charges, levels of customer bad debt or taxes. In particular, since 2000, domestic customers cannot be disconnected from their water supply for failure to pay their bill, although an allowance for bad debts is included when Ofwat sets price limits, which partially mitigates the risk of such bad debts.

• Seasonality and climate change

The proportion of water used from each type of source of water varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints. The quantity of treated water supplied fluctuates owing to a variety of seasonal factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months. In addition, climate or weather pattern changes may adversely affect the availability of water resources or the demand by customers. The company is dependent upon suitable weather conditions supplying raw water as inflow for its abstraction points and it has a drought contingency plan in place should there be a lack of such rainfall.

Regulatory and environmental

• Regulatory environment

The company is subject to and must ensure its compliance with various laws and regulations of the UK and the EU. Failure to comply with these laws and regulations could expose it to regulatory and other proceedings and, in the most extreme case, lead to revocation of its Instrument of Appointment or the appointment of an administrator to manage the affairs, business and property of the company. Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous.

• Failure to deliver water leakage target

The company is required to meet an annual target for water leakage. If it fails to achieve the leakage target by a significant margin in any one year or by a small margin over a number of years, Ofwat may impose various sanctions, including a reduced revenue allowance at the next review of price limits. In addition, if performance were to decline, the company may incur additional operating or capital expenditure to restore performance.

• Competition

Recently, legislation has been proposed that could eventually expand the competitive market allowing retail competition for all non-household customers as an initial step in opening markets to competition from 2017/18. Ofwat and the UK Environment Agency are considering the introduction of reforms to the regulation of water abstraction licences that would allow the trading of licences. Ofwat is also examining the scope for upstream competition in treated water supply and has recently commenced consultations on how it sets future price limits. Ofwat has taken steps to introduce competition into the water supply market through inset appointments and the water supply licensing regime. In addition, Ofwat or the Government may take steps that lead to other changes in the structure of the water industry with potentially adverse consequences to the company.

• Environmental

The company recognises that it has a particular responsibility to protect and enhance the environment and is subject to specific environmental risks around water abstraction and management, pollution, construction project management, protection of designated “protected” species and its ownership of special protected habitats. The company is building on its strong track record in this area by developing additional risk management plans at all sites which could represent an environmental risk or where a particular benefit to the environment could be created.

Financial

• Economic conditions

The company’s RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this decrease. Further, generally unfavourable economic conditions may adversely influence Ofwat’s determination of future price limits. Given the significant investments the company is set to undertake over the remainder of AMP5, it faces risks arising from any adverse changes in RPI.

• Pension plan obligations

The company operates both defined benefit and defined contribution pension arrangements. Since 2002, all new employees have been offered membership only in the defined contribution pension plan. Estimates of the amount and timing of future funding for the defined benefit plan are based on various actuarial assumptions and other factors, which may require the company to make additional contributions to its pension plan which may not be recoverable under the regulatory price determination process.

Financial risk management policies are further discussed in note 16 to the financial statements.



Outlook

The main drivers of future profitability are expected to be:


- increases in charges to customers in line with the RPI+/-K price limits. The 'K' factor allowed by the CC for each of the remaining two years of the current review period is 3.9% and 3.8% respectively;
- changes in operating costs - further efficiencies are expected to be achieved but offset by the cost of new obligations and inflation;
- inflation or deflation – operating costs, the capital investment programme and the company's £162.7m of 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 index-linking of the majority of revenues through the previous year's November RPI added to the K factor in the price limits;
- energy costs are significant for the company; spot power costs are constantly changing in line with crude oil and gas markets. Total energy costs during the year increased by 7% compared to the last year. This increase was primarily due to an increase in forward purchased energy prices. We currently anticipate that energy costs for the next financial year will again increase due to increases in forward purchase prices. We expect energy costs to remain volatile in the future, albeit the company's policy is to closely monitor the prices and enter into a series of forward contracts. This provides some smoothing of price changes;
- movements in socio economic conditions are expected to affect the bad debt charges in future years; and
- any unexpected changes to the regulatory regime.

Luis García

Chief Executive

10 June 2013





The way we act as a business has a profound effect on the social, economic and environmental well-being of our supply area. This report provides an overview of our company position and our progress towards being a sustainable business by providing a great service to our customers, protecting and enhancing our environment, helping our employees to achieve their full potential, managing our supply chain and supporting our local communities.

CORPORATE RESPONSIBILITY REPORT

CORPORATE RESPONSIBILITY REPORT



Support for customers

Working closely with customers who are struggling to pay their water bills encourages them to make regular payments, however small. We have over 6,500 households benefiting from special payment schemes currently.

Customers

Acknowledging that customers' requirements and expectations change over time, we continually work to improve the services we provide to ensure we meet their expectations:

- **Customer service** - Our focus on excellent customer service continues to deliver outstanding results as mentioned in the Operating and Financial Review Report.
- **Customer satisfaction** - We carry out monthly and annual customer satisfaction research and in the most recent annual survey carried out in February 2013, 93% of respondents stated that the service they received was excellent, very good or fairly good. Some 79% of respondents were satisfied that we offered value for money and 83% felt that we have a good reputation. In the monthly surveys, a random number of customers who have contacted us about a billing or operational matter are interviewed to measure how well we responded to their enquiries. Over the last year, 96% of respondents expressed satisfaction with our services and 99% indicated that they had been able to contact us easily.
- **Support for customers** - Working closely with customers who are struggling to pay their water bills encourages them to make regular payments, however small.

We continue to offer a number of schemes to help people receiving certain benefits get back on track and control their finances, including our Restart and Restart Plus schemes and our Assist tariff as well as a number of flexible payment plans. We have over 6,500 households benefiting from these schemes currently.

We have improved our special tariff for customers who have a water meter, are in receipt of certain benefits and are defined by the Government as 'vulnerable' either because they have three or more children under the age of 19 or a member of their household is suffering from a medical condition requiring them to use significantly more water than average.

Under our renamed WaterSure scheme, customers have their bill capped at the level of the average metered bill but if their actual metered bill is less, then they only pay the lower amount. In total there are approximately 1,200 households on this tariff with two thirds falling into the large family category and one third into the medical condition category.

- **Customer communications** - Engaging with customers is extremely important to us and due to the number of engineering improvement works we have undertaken in the last year, the level of customer communication has been higher than normal.

We have re-launched 'WaterTalk', our customer newsletter, which is distributed to all households within our supply area twice a year. WaterTalk provides a cost efficient and effective way of communicating interesting information to customers on water efficiency, improvements to our network, community initiatives, our plans for the future and special customer offers.

Following consultation with customers, we have developed a completely new look for our website making it easier to use and incorporating many useful new features.

A great many engineering works have been undertaken in and around our supply area this year. To reinforce positive messages that the improvement works bring to our customers despite the short-term disruption, we have developed more effective street works signage. We have also nominated specific individuals within our street works engineering teams who are 'here to help' customers requiring special attention while we are working in their area.



Environment

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.

- **Leakage results** - For the second year running, we have significantly beaten our regulatory leakage targets. This is due to our strong commitment to drive leakage down using a range of techniques and resources, helped by a relatively mild winter period. Leakage targets are set by the water industry regulator (Ofwat) at a level where the overall value of the water lost is balanced out by the costs of increased leakage control activity. Managing leakage in a more controlled and effective way has meant that the risk of having to impose water restrictions following sustained periods of dry weather has been minimised.
- **Water efficiency campaigns** - Our customers use about 150 litres of water per person every day, so it is vital to help them use it efficiently. We encourage our customers to save water through the provision of free water efficiency equipment, business water use audits, education programmes and work with local government to improve the efficiency of their own properties. Thanks to this we have been able to help our customers save a total of 956,000 litres each day in 2012/13.

We distributed over 34,000 free water saving items through public events including festivals, at shopping malls and places of work. Water-saving kits were also incorporated into a schools education programme, involving the whole school in saving water at home. Since we introduced the eco school programme late last year, savings of 10,346 cubic metres of water have been achieved. One of our education officers visits the schools and gives a talk about being water wise at home and school. The children are encouraged to talk to their parents and order some free water saving devices that can easily be installed in their homes – helping them become even more water efficient. This year we are adding another element to the free water saving pack: a foldable reusable drinking water bottle.

“We have been able to help our customers save a total of 956,000 litres each day in 2012/13”.

During the summer we teamed up with Bristol City Council and one of our large contract partners, May Gurney, to help vegetable gardeners around the city with their water needs. When May Gurney took over the city's waste contract there was a surplus of large, black wheelie bins available. We provided taps so that the bins could be converted to water butts and then worked with the Council to create a series of events to launch the scheme at public vegetable gardens (allotments). Around 1,000 bins were converted and we are also sponsoring a prize to find the most water efficient allotment in Bristol.

• **Energy and carbon emissions** - We began monitoring and reporting our carbon footprint ten years ago – long before there was any requirement for companies to do so. This year's carbon footprint is 12% down on last year's figure, thanks to the efforts we have made on energy efficiency, water efficiency and renewable energy.

Energy efficiency - as part of our new energy efficiency programme we have increased our management on water sources and pumping (our main consumption of energy) with further improvements in energy-intensive sites over the coming two years. Exceptionally heavy rainfall throughout last year meant that we could use water sources that didn't require as much energy to treat them and this resulted in our total electricity consumption reducing to 73,881 MWh - down approximately 12% on last year's figure of 84,590 MWh.

Carbon emissions - We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint. Our carbon footprint during the year was 41,950 tonnes, approximately 12% lower than last year's figure of 47,488 tonnes. Most of this reduction came from the reduction in our need for electricity during the year.

Water efficiency - Helping our customers save water reduces our own energy consumption because less water has to be pumped – we estimate that in the last year, our water efficiency initiatives will have saved more than 180,000 kg CO₂ from pumping costs alone. Reduction in leakage gives the same benefit and with the lowest leakage ever recorded by the company plus our intensive leakage prevention work, our carbon footprint has dropped sharply.

Renewable energy - We have installed one of the UK's largest solar photovoltaic systems at our treatment works at Purton and during the year it produced 268,925 kWh of electricity. With all this energy used at the site, the carbon saving was over 145,000 kg CO₂.



• **Waste management** - We recycle metal, plastic, wood, paper, batteries and all the other waste expected from a large business, but our most significant source of waste is excavated material from road works. To reduce the amount of waste generated from road works, most mains replacement projects are now carried out using "no dig" technologies. However, there is still a significant amount of waste created by projects that cannot use this technique. During the year, our projects generated 40,352 tonnes of waste, and by working closely with our suppliers and local authorities, we have been able to send over 89% of this to recycling facilities.

• **Biodiversity matters** - We continue to work with stakeholders to protect the special sites we own, and provide training and education for wildlife groups and the public. This includes our award-winning work with Bristol Zoo and Avon Wildlife Trust on an endangered species protection programme for white-clawed crayfish, and an innovative and exciting project called "Trout & About". Bringing nature into the classroom, this project involves working with inner-city schools and the local Wildlife Trust, to provide trout eggs and special fish-keeping equipment so that children can rear trout for release back into the natural environment. The lakes that we manage are a vital part of the local environment because of the wildlife they support, from tiny insects to large fish, including trout. Through the project the children learn about the trout life cycle, the water environment and a local stream which they visit on a field trip.

This project feeds into our catchment management work to improve water-courses and supports Avon Wildlife Trust's 'Living Landscape' and learning strategy.

To provide better access to a wider range of visitors, we have replaced an old "traditional" public bird hide at Chew Valley Lake with a new structure.

• **Catchment management** - We have continued our successful work with farmers and landholders on protecting the water sources we use for public water supply. This has included training, education, individual plans for farmers managing their fields and regular water quality checks to ensure that issues are communicated quickly to landholders who can then take remedial action. In spite of a very wet summer in 2012, this engagement project meant that the level of metaldehyde (the active component used in slug pellets) was reduced to a level which our treatment systems were able to manage.

• **Environmental projects** - as stewards of many areas which are Sites of Special Scientific Interest (SSSIs) and situated in Areas of Outstanding Natural Beauty, we have a responsibility to ensure we maintain and wherever possible improve upon them. Our SSSI status for all our sites remained at 100%, and this year has seen us working with a number of organisations focused on delivering interesting environmental projects for the benefit of all.

New bird hide - Our sites are popular destinations for birdwatchers from all over the UK and we want to ensure that this pastime continues to interest and engage new generations of visitors. To provide better access to a wider range of visitors, we have replaced an old "traditional" public bird hide at Chew Valley Lake with a new structure. This incorporates one-way glass windows and is more accessible, which helps make the site more welcoming to the public, while also protecting wildlife.

The new hide is already far more popular than the structure it replaced, and because of the improved design, school pupils and young families can now access this area of the lake without causing disturbance to the birds they have come to see.

Island habitats - Chew Valley Lake is an internationally important wildlife site, and Denny Island in the lake is one of the largest freshwater islands in the UK, providing important habitat to many protected species. The island had become overgrown in recent years, reducing the wild flowers on the woodland floor and the range of species that can flourish here.

With the agreement of Natural England and under the supervision of a specialist ecologist, we have carried out extensive forestry works at the island to create new habitats and allow daylight to reach the forest floor, encouraging new growth of flowers and woodland plants that will support a wider range of wildlife in the future.



85% of staff survey respondents recognise that Bristol Water is a good place to work.

Employees

To continue being a successful water company, we need to have the best people and maintain the right culture within the business.

- **Safe working practices** - Health and Safety is vital to our continued success. Strong employee engagement is a key contributor to our performance levels and we place significant emphasis on maintaining and strengthening levels of engagement.

A host of initiatives to improve the health and safety of our staff and to reduce the risk of accidents were introduced successfully during the year including, for example, paperless accident reporting, a hazard reporting system with a charitable donation made for every reported hazard, plus a visitor induction programme. We are currently working on a programme where all contracting partners are inducted to the same high standards of health and safety that we apply to ourselves.

The Health and Safety Action Group, made up of a number of representatives across the business, has also been proactive and launched several promotional campaigns to highlight employee well-being in both the workplace and home.

Health and safety is all about continuous improvement and with the aim to reduce reportable accidents to the HSE to the minimum, we need to ensure everyone is committed to achieving this target.

- **Skilled workforce** - Throughout the course of the year, a total of 96 training and development courses have been organised for our staff. These courses have involved nearly 80% of our workforce who have attended at least one. Some courses have been job specific - confined space awareness, breathing apparatus training, water hygiene and first aid training for example, but staff have also attended general courses to enhance their personal development.

- **Motivated workforce** - We want Bristol Water to be a great place to work and we carry out employee engagement surveys regularly and learn from them. In the 2012 survey, 91% of respondents liked their job and felt that the quality of service provided by Bristol Water was very good. A gratifying 86% of respondents were proud to work for Bristol Water with 85% recognising that Bristol Water is a good place to work. We recognise that not everything is positive and we continue to review our working practices and commitment as a responsible employer.

Staff have been involved in the following initiatives:

Business4Life - This is a programme offering employees the opportunity to develop their management skills and raise money for charity. One of our Water Quality Scientists has become a Business4Life team member and has signed up to the challenge of helping to raise at least £50,000 for the WaterAid charity over a 12 month period.

Brainwaves - Our improvement scheme, which has been running since 2001, continues to generate good ideas for improving the way we work and reducing operating costs. Employees are encouraged to submit suggestions to improve the efficiency of the organisation, the quality of service we provide to our customers and ways to make Bristol Water an even better place to work.

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.

Working with specialist contractors and suppliers provides us with the capacity to deliver our capital and operating programmes. These contractors/suppliers are selected because they have the same business ethos as we do, and we believe they will enhance the delivery of a water service to our customers. We receive many customer compliments on both our direct and indirect staff and we ensure that all feedback, whether positive or negative, is communicated to those involved.

With many of our contractors being 'front-line' and in daily contact with our customers, it is important that, as our representatives, they demonstrate professionalism and effective customer communication skills. With the extensive Bristol Resilience Programme bringing our contractors into close contact with local communities, the level of these skills has been put to the test and we are pleased to report that our contractors have excelled when dealing with customer queries. To further improve communication, we introduced designated 'Here to help' staff on the ground to ensure that customers with individual queries had access to key personnel at all times. The implementation of these important customer service roles has been one of the success factors of this major capital engineering scheme.



During the year we held eighteen public open days with over 7,000 visitors attending.

Community support

Our commitment to supporting/sponsoring community and fund raising initiatives continues unabated. Examples include:

- **Debt management funding** - As part of our commitment to assist customers who are struggling to pay their water bills, we have provided around £60,000 to debt advice agencies in our supply area who provide invaluable financial advice and support to these customers. These donations help customers in financial distress to get the free independent support and help they need from these specialist advice agencies.

Money we have donated has enabled debt advice agencies to further staff expertise by providing training or better resources. Others have put the funding towards retraining staff and volunteers who offer essential debt advice.

Working closely with customers who are struggling to pay their water bills allows them to maintain financial responsibility and also encourages them to make regular payments, however small.

- **Sponsorships** - With strong support from us, Bristol was scored as the most sustainable city in the UK, coming second only to Copenhagen in the EU Green Capital competition (2014 award). We are already working with the Council on the next submission for the 2015 award.

We again sponsored the Bristol Civic Society Environmental awards for buildings or sites anywhere in Bristol which are judged an important improvement to their environment. The awards are nominated by the public and receive a prestigious plaque that is displayed on the building and incorporates Bristol Water's name.

We also sponsored the Festival of Nature in 2012, which was held in central Bristol and received over 30,000 visitors over two days. In 2013 this sponsorship will continue and will include work with local artists to decorate a new bird hide constructed at Chew Valley Lake, to encourage customers to enjoy this wonderful environment.

We are a corporate partner to Bristol Museums, Galleries and Archives and in 2013 will be a key sponsor of their educational programme. Our first initiative was "Chocolate!" - an exhibition running from February to May at the M Shed museum. The Bristol area has a long history of chocolate making with famous brands Fry's and Elizabeth Shaw being based in the City.

- **Fundraising** - We encourage and help staff to support their chosen charities. We directly support WaterAid through annual appeals by enclosing a promotional leaflet in with bills. As we bill jointly with Wessex Water, the numbers of customers who have signed up to regularly donate to WaterAid across both our supply areas was 617 in the last year, equating to a forecasted one year income of £27,000. 75 of our customers also made one-off donations equating to just under £4,000. Since the 1983 launch of WaterAid's customer campaign with Bristol Water and Wessex Water, over £9.8 million (including Gift Aid) has been donated to WaterAid - enough to help more than 657,850 people gain access to safe and clean water.

- **Rachel's scheme** - This important initiative, created by one of our employees called Rachel, rewards employees who give their free time by doing voluntary work for the benefit of the wider community. Employees are encouraged to apply for a grant which is made payable to the organisation that they voluntarily work with, so that they can improve the services the organisation offers.

- **Open days** - During the year we held eighteen public open days with over 7,000 visitors attending. Of these, seventeen were on Sunday afternoons at our Blagdon pumping station and visitor centre, which houses historic beam pumping engines and has a series of exhibition rooms featuring interactive displays, videos and historic items. We also held an event at our Head Office water saving garden.

Luis García

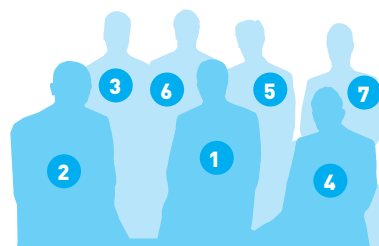
Chief Executive

10 June 2013

BOARD OF DIRECTORS



Board of Directors



1. Keith Ludeman | Age 63

Non-Executive Chairman, Member of Nomination Committee

Mr Ludeman was appointed to the Board in July 2012. He is a Non-Executive director of Network Rail Limited and Interserve plc and is a former Chief Executive Officer of Go-Ahead Group plc with forty years' experience in the transport industry.

2. Luis García | Age 48

Chief Executive, 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 of the company on 1 April 2009.

3. Miquel Anglada | Age 39

Finance Director

Mr Anglada was appointed to the Board in October 2009 and was appointed Finance Director on 1 December 2009. Prior to moving to the UK he was Group Financial Controller at Agbar in Barcelona.

4. Michael King | Age 48

Regulatory Director

Mr King was appointed to the Board in November 2010. He joined the company in December 2000 and was appointed Head of Competition & Regulation in January 2002. He was appointed Director of Regulation in January 2008.

5. Peter McIlwraith | Age 65

Non-Executive, Senior Independent Director, Chairman of Audit Committee, and Member of Nomination and Remuneration Committees

Mr McIlwraith was appointed to the Board in 2003. He was a director of BWG from 2003 until June 2006. He was a partner with PricewaterhouseCoopers LLP (and prior to that Price Waterhouse LLP) until 2001 and was Regional Chairman for the West and Wales and Senior Partner in Bristol.

6. Chris Curling | Age 62

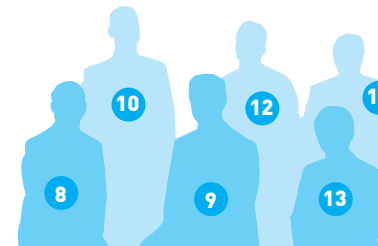
Non-Executive, Chairman of Remuneration Committee, and Member of Nomination and Audit Committees

Mr Curling was appointed to the Board in 2004. He was a director of BWG from 2005 until June 2006. He has two non-executive directorships and a number of appointments in the voluntary sector including the chairmanship of Sustrans. Formerly he was Senior Partner with the legal firm Osborne Clarke.

7. Robert Davis | Age 65

Non-Executive, Member of Audit, Nomination and Remuneration Committees

Mr Davis was appointed to the Board in November 2008. With a mechanical engineering background, he worked with Rolls Royce before moving to the packaging industry leading to Managing Director roles in both the UK and the USA.



8. Michael Bernstein | Age 45

Non-Executive, Member of Nomination and Remuneration Committees

Mr Bernstein is the President and Chief Executive Officer of Capstone Infrastructure Corporation and was formerly the President of Macquarie Infrastructure and Real Assets Canada Limited and Senior Managing Director of the Macquarie Group. Mr Bernstein was appointed to the Board on 5 October 2011.

9. Michael Smerdon | Age 42

Non-Executive, Member of Audit Committee

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.

10. Jack Bittan | Age 35

Non-Executive

Mr Bittan is the Senior Vice President, Business Development of Capstone Infrastructure Corporation and is responsible for Capstone Infrastructure Corporation's business development initiatives. He was formerly a Senior Vice President of Macquarie Infrastructure and Real Assets Canada Limited. Mr Bittan joined the Board on 5 October 2011.

11. Anthony Harding | Age 64

Non-Executive, Member of Remuneration Committee

Mr Harding was appointed to the Board in September 2007. He is an Executive Vice President of Suez Environnement International and is the former Chairman of United Water, a subsidiary of Suez Environnement SA, which provides water and wastewater services to around 7 million people in several US states. He is a Chartered Engineer and was previously Managing Director of Northumbrian Water and Essex & Suffolk Water.

12. Paul Bourdillon | Age 41

Non-Executive

Mr Bourdillon is the Deputy Chief Finance Officer of Agbar and formerly held a number of senior posts in the Suez Environnement Group including Group Director of M&A as well as Chief Financial Officer of SITA Australia. He was appointed to the Board on 5 October 2011.

13. Hajime Ichishi | Age 38

Non-Executive

Mr Ichishi is a Project Manager for the Itochu Corporation of Japan and is responsible for the worldwide development of the Corporation's water and environment sector project. Previously he worked as General Manager of Itochu Europe and led the development and management of infrastructure, power, and renewable energy investments in Europe. He was appointed as director on 10 May 2012.

Note: References to Bristol Water Group Limited (BWG now known as Bristol Water Holdings UK Limited) above include predecessor companies where appropriate.

DIRECTORS' REPORT

The directors present the Annual Report and the audited accounts for the year ended 31 March 2013.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise supply of water and related services to a population of approximately 1.2 million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

Financial results and dividends

The enhanced business review including financial results and KPIs is contained in the Operating and Financial Review Report on pages 9 to 40.

The total dividend paid during the year ended 31 March 2013 was 245.3p (2012: 116.5p) per ordinary share. The Board has proposed a final dividend of £3.1m in respect of the year ended 31 March 2013 (31 March 2012: £4.8m). The company policy for dividends to shareholders is contained in the Operating and Financial Review Report on page 31. Further details of dividends paid and proposed during the year are disclosed in note 21 to the financial statements.

Capital structure

Details of the issued share capital are shown in notes 14 and 19. 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 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 19. 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 14.

Non-financial performance

The company uses a comprehensive system of KPIs to monitor non-financial performance throughout the year. Review of non-financial KPIs is contained in the Operating and Financial Review Report on pages 16 to 26.

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 and cash deposits of £12.7m and £69m available committed borrowing facilities.

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 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.

RISK AND UNCERTAINTY

The key risks and uncertainties that the company faces are grouped under the following categories:

- Strategic;
- Reputational;
- Operational;
- Regulatory and environmental; and
- Financial.

The enhanced review of these risks and uncertainties and related risk management strategies to mitigate the impact of these risks and uncertainties is contained in the Operating and Financial Review Report on pages 35 to 38.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

- K Ludeman**, Chairman (appointed on 26 July 2012)
 - M Woolley**, Chairman (resigned on 26 July 2012)
 - L García**, Chief Executive
 - M Anglada**, Finance Director
 - M King**, Regulatory Director
 - P McIlwraith**, Non-Executive
 - C Curling**, Non-Executive
 - R Davis**, Non-Executive
 - M Bernstein**, Non-Executive
 - M Smerdon**, Non-Executive
 - J Bittan**, Non-Executive
 - A Harding**, Non-Executive
 - P Bourdillon**, Non-Executive
 - H Ichishi**, Non-Executive (appointed on 10 May 2012)
 - S Miller**, Non-Executive (resigned on 10 May 2012)
- Messrs P McIlwraith, C Curling, A Harding, M Anglada and M King will offer themselves for re-election at the Annual General Meeting.

Service contracts

All current executive directors have service contracts with 12-month notice periods except for Mr M Anglada, who is on a secondment arrangement.

Other interests

At no time during the year has any director had a material interest in any contract of significance with any company in the Agbar or Capstone or Itochu groups of companies other than his service contract.

The interests in shares and other contracts of Messrs M Bernstein, M Smerdon, J Bittan, and S Miller with other companies within the Capstone group are not disclosed within this report.

The interests in shares and other contracts of Messrs L García, M Anglada, P Bourdillon, and A 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 H Ichishi with other companies within the Itochu group are not disclosed within this report.

Mr M Woolley has interests and beneficial interests in the company's 8.75% irredeemable cumulative preference shares of £28,000 (2012: £28,000).

EMPLOYEES

Our employees are vital to the success of the company.

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;
- give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities;
- have appropriate arrangements for the continued employment and training, career development and promotion of disabled persons employed by the company. 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;
- systematically provide 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;
- encourage employee involvement, 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 the company; see related details included in Corporate Responsibility Report on page 48;
- are committed to staff training and sound relationships with trade unions, see related details included in Corporate Responsibility Report on page 48;
- have high standards for health and safety, see related details included in Corporate Responsibility Report on page 48;
- operate bonus schemes for all employees linked to financial and service level performance targets; and
- make continued efforts to improve the work environment.

OUTLOOK

Commentary on the main drivers of future profitability is contained in the Operating and Financial Review Report on page 39.

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 26 to the financial statements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is company policy to comply with the terms of payment agreed with a supplier. Where payment terms are not negotiated, the company endeavours to adhere to the supplier's standard terms. The company pays creditors in accordance with agreed payment terms on receipt of valid invoices. At the end of the year, trade creditors represented the equivalent of 68 days purchases (2012: 65 days).

RESEARCH AND DEVELOPMENT

The company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2012: £0.1m).

FINANCIAL INSTRUMENTS

The details of the financial instruments are provided in note 17 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 will be 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; and
- in favour of one director of the company against any liability which may arise in respect of his current or past duties as trustee of the Water Companies' Pension Scheme, 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.

Following the resignation of the former auditors, Ernst & Young LLP, on 22 October 2012 PricewaterhouseCoopers LLP were appointed auditors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the Directors' 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 57 to 61 of these financial statements. 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:

By order of the Board

Stephen Robson, Company Secretary

10 June 2013

CORPORATE GOVERNANCE REPORT

DIRECTORS' STATEMENT

The Board is committed to ensuring that high standards of corporate governance are maintained by the company. In doing so it endorses the main and supporting principles and provisions set out in the UK Corporate Governance Code 2010 (the Code). The Code is publically available. For the year ended 31 March 2013 and up to the date of approving the accounts the Board has applied the principles and complied with the provisions of the Code.

Going concern

As detailed in the Directors' Report on page 53, 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. Therefore they continue to adopt the going concern basis of accounting in preparing these accounts.

Board and Board committees

On 26 July 2012 M Woolley resigned as the chairman and K Ludeman joined the company as an independent director and was then elected chairman. He is also a Non-Executive director of Network Rail Limited and Interserve plc and is a former Chief Executive Officer of Go-Ahead Group plc with forty years' experience in the transport industry. The recruitment process was conducted by an external firm, Heidrick & Struggles the global executive search consultants, in conjunction with a team appointed by the Nomination Committee consisting of L Garcia, A Harding and M Bernstein.

At 31 March 2013 the Board of Bristol Water plc (the "Board") comprised the Chairman (a non-executive director), three executive directors and nine other non-executive directors. Three 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, a point at which the Code requires the Board to specifically assess that these directors are independent of the executive. That assessment has been carried out by the Board. Given the importance of the five year cycles of the regulated business the Board wishes to retain the benefit of their experience gained in post at this point in the regulatory cycle. This assessment has been made by the Board based on its views of their performance on the Board and taking into account their experience, character and period served.

The independent non-executive directors constructively challenge and help develop proposals on strategy and bring strong, 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 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. 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.

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

The Chairman is conducting a formal performance evaluation exercise of the Board's effectiveness currently which includes taking into account the views of the company's shareholders all of which are represented on the Board. The Senior Independent Director will also review the Chairman's performance.

The company is privately owned and representatives of each different shareholder are Board members thus there is good face to face ongoing contact during the year and at Board meetings. 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 Board and committee meetings during the year:

	Number of meetings					
	Board meetings attended (maximum 8)	Maximum possible during period of appointment	Percentage attendance during period of appointment	Audit Committee meetings (maximum 4)	Remuneration Committee meetings (maximum 3)	Nomination Committee meetings (maximum 1)
K Ludeman, Chairman (appointed on 26 July 2012)	7	7	100%	3	1	0
M Woolley, Chairman (resigned on 26 July 2012)	2	2	100%	1	2	1
L García, Chief Executive	8	8	100%	4	3	1
M Anglada, Finance Director	8	8	100%	4	0	0
M King, Regulatory Director	8	8	100%	4	0	0
P McIlwraith, Non-Executive	8	8	100%	4	3	1
C Curling, Non-Executive	7	8	88%	4	3	1
R Davis, Non-Executive	8	8	100%	4	3	1
M Bernstein, Non-Executive	8	8	100%	0	3	1
M Smerdon, Non-Executive	7	8	88%	4	2	1
J Bittan, Non-Executive	8	8	100%	0	1	1
A Harding, Non-Executive	8	8	100%	0	3	1
P Bourdillon, Non-Executive	8	8	100%	2	1	1
H Ichishi, Non-Executive (appointed on 10 May 2012)	8	8	100%	4	3	0
S Miller, Non-Executive (resigned on 10 May 2012)	0	0	n/a	0	0	0

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. In the event that an individual does not wish to raise a concern with him, the Board has now identified Mr P McIlwraith as the senior independent member of the Board to whom such concerns may be addressed.

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 Committee

The Audit Committee’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 is chaired by Mr P McIlwraith and currently comprises three other non-executive directors Mr C Curling, Mr R Davis and Mr M Smerdon. Mr P McIlwraith is the only qualified accountant in the Committee. The external auditors attended all meetings during the period of their appointment in the year and the internal auditors report to this Committee on a regular basis.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders by writing to the Company Secretary, Mr S Robson.

External auditors

The Audit Committee 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 Audit Committee, and day-to-day responsibility to the Finance Director. It states that the external auditors are jointly responsible to the Board and the Audit Committee and that the Audit Committee 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 audit committee reviewed:

- the external auditors’ plan for the current 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.

Following the resignation of the former auditors, Ernst & Young LLP, PricewaterhouseCoopers LLP were appointed auditors during the year. As PricewaterhouseCoopers LLP were already auditors of Capstone, the majority shareholder, the change in auditors was proposed by Capstone to align the audit process of Bristol Water with Capstone’s.

To assess the effectiveness of the external auditors, the Audit Committee 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.

The detail of auditors’ remuneration is provided in note 3(d) to the financial statements.

Internal auditors

The Audit Committee 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 Audit Committee 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, the activity of management’s response and the timeliness of resolution.

Remuneration Committee

The role and composition of the Remuneration Committee is set out in the Remuneration Committee Report on pages 62 to 65.

Nomination Committee

Under the chairmanship of K Ludeman (M Woolley until 26 July 2012) 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 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. K 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 K Ludeman, P McIlwraith, C Curling, R Davis, L García, M Bernstein and A Harding.

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.

Ongoing 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. All 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.

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 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 Audit Committee:

- reviews internal and external audit work plans and commissions, where appropriate, reviews of specific issues;
- 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 Board members and management or in the internal and external audit reports; and
- the Chairman of the Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

The Board:

- 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 4 October 2012 and 22 May 2013 in order to form a view on the overall effectiveness of the system of internal control. The 4 October 2012 review included an assessment of the effectiveness of internal controls within the group's joint venture, Bristol Wessex Billing Services Limited.

From the 4 October 2012 review the Board considered the issues carefully and asked that consideration be given to addressing shareholder risk as part of the risk register. From both the 4 October 2012 and 22 May 2013 reviews the Board concluded that the overall internal control framework was working effectively.

By order of the Board

Stephen Robson, Company Secretary

10 June 2013

REMUNERATION COMMITTEE REPORT

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006.

Unaudited element of the Remuneration Committee Report

The Board has reviewed the company's compliance with the Corporate Governance Code 2010 (the Code) on remuneration related matters. It is the opinion of the Board that the company complied with all remuneration related aspects of the Code during the year.

The Report will be put to shareholders for approval at the Annual General Meeting.

Role and composition of the Remuneration Committee

The Remuneration Committee makes recommendations to the Board on the remuneration and other employment conditions of the executive directors and senior executives of Bristol Water plc. The membership of the Committee during the year comprised Mr C Curling (Chairman), Mr R Davis, Mr P McIlwraith, Mr M Bernstein and Mr A Harding. Attendances at committee meetings are set out on page 58.

The Committee is formally constituted with written terms of reference. A copy of the terms of reference is available to shareholders by writing to the Company Secretary, Mr S Robson.

In deciding appropriate levels of executive remuneration, the Committee uses external research from independent remuneration consultants when appropriate to obtain up-to-date information on a comparator group of companies.

During the year Mr L García (Chief Executive) and Mr S Robson (Company Secretary) also provided material advice and services to the Committee. No director played a part in any discussions about his own remuneration. None of the Committee 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

The key principle underpinning remuneration policy is the need 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, thereby enhancing shareholder value and improving the service to customers. The company's policy is that a significant proportion of the remuneration of the executive directors should be performance related.

There are three main elements of the remuneration package for executive directors:

Basic annual salary - 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.

Annual bonus - based on the achievement of three balanced elements: customer service, financial target and capital programme delivery targets together with an assessment of personal performance. The same targets apply equally to all staff who receives bonuses.

The customer service targets are set around measurable outcomes which we believe are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the SIM.

The annual bonus in this financial year is restricted to a maximum of 30% of basic salary (save in exceptional circumstances).

Taxable benefits in kind - reflecting market practice and comprising the provision of a company car and private medical and life insurance.

Some expatriate benefits provided to Messrs García and Anglada are not borne by the regulated water business. The expatriate benefits include their free furnished accommodation, utilities, tax advice and private school/nursery fees where appropriate.

Annual bonus scheme

Annual bonus awards for the bonus year 2012/13 are shown in the sections headed 'Details of directors' remuneration and pension benefits'.

Share options and long-term incentive schemes

There are currently no Share Options or Long-term Incentive schemes in place.

Service contracts

Details of the employment contracts of the executive directors who served during the year are as follows:

	Contract date	Notice period	Unexpired term
L García	23 April 2009	1 year	rolling 1 year
M King	1 April 2011	1 year	rolling 1 year
M Anglada*	N/A	N/A	N/A

* Mr M Anglada is on a secondment arrangement from the Agbar group.

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

Directors' pension arrangements

At 31 March 2013, no director was accruing benefits under the company defined benefit pension scheme.

Any newly-appointed executive directors recruited externally (to the Capstone and Agbar groups) will be offered membership of a company designated stakeholder pension scheme or the option of a company contribution to a personal pension plan.

Non-Executive directors

The remuneration of the non-executive directors is determined by the Board and has been based, where appropriate, upon market evidence of fees paid to non-executive directors in companies of comparable size and on the basis of time commitments. Additional responsibilities are also taken into account. No director votes in respect of his own remuneration.

Non-executive directors do not have contracts of service, do not participate in company pension, share 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.

Audited element of the Remuneration Committee Report

Details of directors' remuneration and pension benefits

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006, which are subject to audit. Full details of all elements in the remuneration package of each director are set out on the following page. Details of directors' share interests are given in the Directors' Report.

Directors' remuneration

	Notes	Salary/fees	Benefits	Bonus	2013 Total	2012 Total
		£000	£000	£000	£000	£000
K Ludeman	1 Non-Executive	58	-	-	58	-
M Woolley	2 Non-Executive	26	-	-	26	60
L García	3 Executive	185	9	58	252	197
M Anglada	3 Executive	118	7	37	162	147
M King	Executive	109	1	33	143	154
P McIlwraith	Non-Executive	40	-	-	40	39
C Curling	Non-Executive	38	-	-	38	36
R Davis	Non-Executive	33	-	-	33	32
M Bernstein	4 Non-Executive	-	-	-	-	-
M Smerdon	4 Non-Executive	-	-	-	-	-
J Bittan	4 Non-Executive	-	-	-	-	-
A Harding	4 Non-Executive	-	-	-	-	-
P Bourdillon	4 Non-Executive	-	-	-	-	-
H Ichishi	4,5 Non-Executive	-	-	-	-	-
S Miller	4,6 Non-Executive	-	-	-	-	-
A Parsons	Executive	-	-	-	-	62
R Brito	Executive	-	-	-	-	62
J Guijarro	4 Non-Executive	-	-	-	-	-
M Cermerón	4 Non-Executive	-	-	-	-	-
J Valls	4 Non-Executive	-	-	-	-	-
Charge to Profit and Loss account		607	17	128	752	789

Notes

- 1 Appointed as chairman on 26 July 2012.
- 2 Resigned as chairman on 26 July 2012.
- 3 These costs represent amounts paid by and charged to Bristol Water plc, and exclude costs charged to other group companies.
- 4 No remuneration has been paid by the company.
- 5 Appointed as a Non-Executive director on 10 May 2012.
- 6 Resigned as a director on 10 May 2012.

Benefits in kind above include the provision of a company car, medical and life insurance where applicable paid by the company.

Bonus includes amounts accrued and approved, but not paid as at 31 March 2013 and relates to the period served as a director.

Accrued pension scheme benefits earned by directors

At 31 March 2013, no director was accruing benefits under the company defined benefit pension scheme.

Messrs García and Anglada have not joined the company designated stakeholder pension plan and the company is not making contributions to any private pension scheme on their behalf.

Mr M King has not joined the company designated stakeholder pension plan; however the company is making contributions to a private pension scheme on his behalf. The company's contributions to the private pension plan for Mr M King amounted to £6,412.

This report was approved by the Board of Directors on 10 June 2013 and signed on its behalf by:

Chris Curling
Chairman of Remuneration Committee
10 June 2013

AUDITED FINANCIAL STATEMENTS

Profit and loss account

Statement of total recognised gains and losses

Reconciliation of movement in shareholders' funds

Balance sheet

Cash flow statement

Notes to the accounts

Independent auditors' report

Financial history

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2013

		2013	2012
	Note	£m	£m
Turnover	2	114.2	108.0
Operating costs	3	(87.3)	(83.5)
Operating profit		26.9	24.5
Other net interest payable and similar charges	4	(10.4)	(12.3)
Dividends on 8.75% irredeemable cumulative preference shares	4	(1.1)	(1.1)
Net interest payable and similar charges		(11.5)	(13.4)
Profit on ordinary activities before taxation		15.4	11.1
Taxation on profit on ordinary activities	5	(2.3)	(3.9)
Profit for the financial year		13.1	7.2
Earnings per ordinary share	6	218.4p	120.0p
Dividends per ordinary share	21		
- paid during the period		245.3p	116.5p

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

There is no difference between the profit on ordinary activities after taxation and the profit for the financial year stated above and their historical cost equivalents.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2013

		2013	2012
	Note	£m	£m
Profit for the financial year		13.1	7.2
Actuarial gains recognised in respect of retirement benefit obligations	23	0.6	1.2
Attributable deferred taxation	18	-	(0.1)
Change in the fair value of the interest rate swap	17	(0.2)	(0.8)
Attributable deferred taxation	18	-	0.1
Total recognised gains for the year		13.5	7.6

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 March 2013

		2013	2012
	Note	£m	£m
Profit for the financial year		13.1	7.2
Other recognised gains and losses relating to the year (net)		0.4	0.4
Equity dividends paid	21	(14.7)	(7.0)
(Decrease)/Increase in shareholders' funds during the year		(1.2)	0.6
Shareholders' funds at 1 April		90.5	89.9
Shareholders' funds at 31 March		89.3	90.5

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

BALANCE SHEET

at 31 March 2013

		2013	2012
	Note	£m	£m
Tangible assets	7	313.7	264.4
Other investments - Loans to group undertakings	8	68.5	68.5
Current assets			
Stocks	9	1.3	1.4
Debtors	10	29.3	27.3
Cash on deposit	11	9.5	64.5
Cash at bank and in hand		3.2	7.8
		43.3	101.0
Creditors: amounts falling due within one year			
Current portion of long-term borrowings	12	(2.2)	(18.4)
Other creditors	13	(46.0)	(40.6)
		(48.2)	(59.0)
Net current (liabilities)/assets		(4.9)	42.0
Total assets less current liabilities		377.3	374.9
Creditors: amounts falling due after more than one year	14	(250.9)	(246.9)
8.75% irredeemable cumulative preference shares	14	(12.5)	(12.5)
Provisions for liabilities	18	(26.0)	(24.7)
Deferred income	15	(8.8)	(9.3)
Net assets excluding retirement benefit surplus		79.1	81.5
Retirement benefit surplus	23	10.2	9.0
Net assets including retirement benefit surplus		89.3	90.5
Capital and reserves			
Called-up share capital	19	6.0	6.0
Share premium account	20	4.4	4.4
Other reserves	20	4.2	4.4
Profit and loss account	20	74.7	75.7
Total shareholders' funds	20	89.3	90.5

The financial statements of Bristol Water plc, registered number 2662226, were approved by the Board of Directors and authorised for issue on 10 June 2013.

Luis García, Director

Miquel Anglada, Director

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

CASH FLOW STATEMENT

for the year ended 31 March 2013

		2013	2012
	Note	£m	£m
Net cash inflow from operating activities	24(a)	59.4	55.8
Returns on investments and servicing of finance			
Interest received		4.5	4.6
Interest paid on term loans and debentures		(10.0)	(9.9)
Interest paid on finance leases		-	(0.5)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
		(6.6)	(6.9)
Taxation			
Corporation tax paid		(0.7)	(2.0)
Capital expenditure and financial investment			
Purchase of tangible assets		(83.8)	(48.7)
Contributions received		3.9	3.9
Proceeds from disposal of tangible assets		0.1	0.1
Decrease in cash deposits maturing after three months from the balance sheet date	11	20.3	26.5
		(59.5)	(18.2)
Equity dividends paid	21	(14.7)	(7.0)
Cash (outflow)/inflow before management of liquid resources and financing		(22.1)	21.7
Management of liquid resources being decrease/(increase) in liquid resources	11	34.7	(13.7)
Financing			
New term loan		1.0	-
Capital element of lease repayments		(3.2)	(2.6)
Repayments of long-term debt		(15.0)	-
		(17.2)	(2.6)
(Decrease)/Increase in cash in the year	24(b)	(4.6)	5.4
Cash, beginning of year		7.8	2.4
Cash, end of year		3.2	7.8

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the accounts have been applied consistently. The significant accounting policies adopted in the preparation of the accounts are set out below.

(a) Accounting convention

The accounts of the company are prepared under the historical cost convention as modified by financial asset and financial liabilities (including derivative instruments) at fair value through Statement of Total Recognised Gains and Losses and in accordance with applicable accounting standards in the United Kingdom (UK GAAP) and with the provisions of the Companies Act 2006, except for the treatment of certain capital contributions as explained in sub-note (e) below.

In relation to the future of financial reporting in the UK, ASB has issued the following standards:

- FRS 100 'Application of Financial Reporting Requirements' (issued on 22 November 2012);
- FRS 101 'Reduced Disclosure Framework' (under EU IFRS) (issued on 22 November 2012);
- FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' ('FRSUKI', formerly the 'FRSME') (issued on 14 March 2013).

The proposed effective date is periods beginning on or after 1 January 2015, with early adoption permitted for periods beginning on or after the date of issue of the standards.

The company has not adopted the above for its financial statements for the year ended 31 March 2013, and has no current plans to do so before the proposed effective date.

(b) Going concern

As detailed in the Directors' Report on page 53, 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. Therefore they continue to adopt the going concern basis of accounting in preparing these accounts.

(c) Turnover

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

Income from metered supplies is based upon actual or estimated water consumption.

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

(d) Tangible assets and depreciation

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

Infrastructure assets

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity, enhancements or planned maintenance of the network is treated as an addition to tangible assets and is included at cost. The cost of infrastructure assets is their purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the company.

Other assets

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. All are included at cost. The cost of other assets is their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs which are incremental to the company.

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.

Depreciation of infrastructure assets under renewals accounting takes account of planned expenditure levels in the long-term to maintain the operating capability of the company's infrastructure assets in perpetuity.

Other assets are depreciated after commissioning over the following estimated economic lives:

Operational properties and structures	15 to 100 years
Plant and equipment comprising:	
Treatment, pumping and general plant	20 to 24 years
Computer hardware, software, communications, meters and telemetry equipment	3 to 15 years
Vehicles and mobile plant	5 to 7 years

Assets under construction are not depreciated.

Impairment

The values of tangible assets are reviewed regularly 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 profit and loss account.

(e) Grants and contributions

Contributions received in respect of enhancing the infrastructure network are deducted from the cost of the related tangible assets. This treatment is allowed by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 2006 which requires that such contributions be shown as deferred income. The cumulative amount of such contributions is shown in note 7 (d).

In the directors' opinion, this treatment is necessary to show a true and fair view as the related assets do not have determinable finite lives and therefore no basis exists for the amortisation of the contributions. The effect on tangible assets is shown in note 7(d) to the accounts.

Prior to 1 April 2010, a type of contribution called "Infrastructure Charges" was partially attributed to the non-infrastructure assets and was treated as deferred income which is amortised in the profit and loss account over the expected useful lives of the related assets.

Subsequently, all such contributions have been attributed to infrastructure assets.

Grants and contributions in respect of expenditure charged to the profit and loss account are netted against such expenditure as received.

(f) 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 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. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, is included in net interest payable and similar charges.

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. When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account. Losses are measured at the date that the company becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited direct to the statement of total recognised gains and losses.

Costs of defined contribution pension schemes are charged to the profit and loss account in the period in which they fall due. Administration costs of defined contribution schemes are borne by the company.

(g) Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

(h) 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.

(i) 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 profit and loss account.

Operating lease rental payments are charged to the profit and loss account as incurred over the term of the lease.

(j) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Advance Corporation Tax (ACT) in respect of dividends in previous years is written off to the profit and loss account unless it can be recovered against mainstream corporation tax in the current 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 differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on the UK government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

(k) Cash on deposit

Cash on deposit represents short-term deposits having maturity up to one year from the balance sheet date.

(l) Stocks

Stocks are valued at the lower of cost and net realisable value. Stock valuation is determined using the weighted average cost method. Following established practice in the water industry, no value is included in the accounts in respect of water held in store.

(m) Financial instruments

The company has entered into an interest rate swap effective from 22 October 2008. In accordance with the provisions of FRS 25, 'Financial Instruments: Presentation', and FRS 26, 'Financial Instruments: Recognition and Measurement', the company values its interest-rate swap on the balance sheet. The effective portion of the swap is deferred through the statement of total recognised gains and losses. Should there be any ineffectiveness, any gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account within finance charges.

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.

(n) 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 swap is deferred through the statement of total recognised gains and losses. Should there be any ineffectiveness; any gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account within finance charges.

Amounts deferred in the statement of total recognised gains and losses are recognised in the profit and loss account in the periods when the hedged item is recognised in the profit and loss account, in the same line as the recognised hedged item.

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.

(o) 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. The effect of the time value of money, except in case of deferred tax as mentioned in sub-note (i) above, is not material and therefore the provisions are not discounted.

NOTES TO THE ACCOUNTS

2. TURNOVER

Turnover 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.

3. OPERATING COSTS

(a) Operating costs includes -

	2013	2012
	£m	£m
Consumables	2.6	2.6
Wages and salaries	15.5	15.0
Social security costs	1.4	1.3
Pension costs	2.4	2.3
Total payroll cost	19.3	18.6
Less capitalised as tangible assets	(7.7)	(6.4)
Net payroll cost	11.6	12.2
Depreciation of tangible assets (note 7)		
On owned assets	34.2	31.6
On leased assets	1.1	1.1
Amortisation of related deferred income (note 15)	(0.5)	(0.5)
Other operating charges		
Research and development expenditure	0.1	0.1
Auditors' remuneration	0.1	0.1
Other charges less recoveries	38.1	36.3
Total operating costs	87.3	83.5

(b) Employee details-

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

	2013	2012
Water treatment and distribution	262	271
Support services	93	85
Administration	72	58
Non-appointed activities	36	40
	463	454

3. OPERATING COSTS

(c) Directors' emoluments -

	2013	2012
	£m	£m
Aggregate emoluments of directors, being remuneration, bonus and benefits in kind	0.7	0.8

Full details of directors' emoluments are disclosed in the Remuneration Committee Report.

The highest paid director during the year was L García; full details of his remuneration are disclosed in the Remuneration Committee Report.

(d) Auditors' remuneration

	2013	2012
	£000's	£000's
The auditors' remuneration comprised:		
Fees payable for the audit of the company's annual statutory accounts	46	48
Fees payable for the review of the company's interim accounts	8	8
Services pursuant to legislation, principally related to regulatory accounts and returns	32	33
Fees payable in respect of pension scheme review	3	3
Total non-audit fees	43	44

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	£m	£m
Interest payable and similar charges relate to:		
Bank borrowings	1.0	1.0
Term loans and debentures	9.0	8.8
- interest charges		
- indexation and amortisation of fees and premium on loans	4.8	7.0
Finance leases*	(0.1)	0.2
	14.7	17.0
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
Net Interest charge in respect of retirement benefit scheme	-	-
Interest payable and similar charges	15.8	18.1
Less interest receivable and similar income		
Loan to Bristol Water Holdings UK Limited - interest receivable	(4.0)	(4.0)
Other external investments and deposits	(0.3)	(0.7)
Interest receivable and similar income	(4.3)	(4.7)
Net interest payable and similar charges	11.5	13.4

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 FRS 25.

* The amount for the current year is a net gain due to a rebate per the lease agreement received during the year.

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2013	2012
	£m	£m
(a) Analysis of charge for the year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 24% (2012: 26%) (note 5(b))	2.2	1.4
Adjustment to prior years	(1.4)	(0.1)
	0.8	1.3
Deferred tax (note 18):		
Origination and reversal of timing differences	1.8	1.7
Effect of corporation tax rate change	(1.5)	(2.9)
Adjustment to prior years	1.1	0.1
	1.4	(1.1)
Effect of discounting	0.1	3.7
	1.5	2.6
Tax on profit on ordinary activities	2.3	3.9

The charge for corporation tax includes amounts for group relief surrendered by other group companies. Group relief is charged at the mainstream corporation tax rate in the applicable year.

During the year, the government enacted a reduction in corporation tax rates from 24% to 23% (2012: 26% to 24%). The beneficial effect of this change in legislation is £1.5m (2012: £2.9m) on an undiscounted basis and £1m (2012: £1.4m) on a discounted basis.

Discounting rates decreased during the current year (2012: decreased). If the balances at the end of the previous financial period had been valued using the current closing discount rates there would have been an increase in the overall discounted deferred tax charge of £0.8m (2012: increase of £3.1m). This increase is recognised within the effect of discounting in the current period.

Factors that may affect future tax charges

In March 2013, the government announced its intention to progressively reduce the corporation tax rate to 20% by the financial year 2014/15. The reductions have been included in the draft Finance Bill 2013 and are expected to be substantially enacted in July 2013. The tax rate used in calculating the 31 March 2013 deferred tax balance was 23% (2012: 24%). The beneficial effect on the discounted deferred tax liability at the balance sheet date would be £3.7m (£5.2m on an undiscounted basis). As these future tax rates were not substantially enacted at the balance sheet date, this change has not been reflected in these accounts.

Advance Corporation Tax (ACT) is recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is £3.9m (2012: £3.9m) of unrecognised ACT carried forward at 31 March 2013.

The company also holds £2.9m (2012: £2.9m) of unrecognised capital losses, which are available to offset against any future capital gains.

(b) Reconciliation of the current tax charge

The current tax rate for the year is lower (2012: lower) than the standard rate of Corporation Tax in the United Kingdom of 24% (2012: 26%). The differences are explained below:

	2013	2012
	£m	£m
Profit on ordinary activities before taxation	15.4	11.1
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 24% (2012: 26%)	3.7	2.9
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	0.3	0.3
Capital allowances in excess of depreciation	(1.4)	(1.6)
Additional retirement benefit contributions	(0.2)	(0.1)
Long-term timing differences	(0.1)	-
Short-term timing differences	(0.1)	(0.1)
	2.2	1.4
Adjustment to tax in respect of prior years	(1.4)	(0.1)
Total current tax charge (note 5(a))	0.8	1.3

6. EARNINGS PER ORDINARY SHARE

	2013	2012
	m	m
Earnings per ordinary share have been calculated as follows - On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£13.0	£7.2
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.

NOTES TO THE ACCOUNTS

7. TANGIBLE ASSETS

(a) The movements for the year comprise –

	Freehold land, operational properties and structures	Plant and equipment	Infrastructure assets	Assets under construction	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2012	230.1	46.8	268.8	30.6	576.3
Additions	-	-	36.1	52.4	88.5
Capitalisation of completed assets	29.5	9.5	19.4	(58.4)	-
Disposals	-	(0.7)	-	-	(0.7)
Grants and contributions	-	-	(3.9)	-	(3.9)
At 31 March 2013	259.6	55.6	320.4	24.6	660.2
Accumulated Depreciation					
At 1 April 2012	102.3	35.0	174.6	-	311.9
Charge for year	7.8	4.1	23.4	-	35.3
Disposals	-	(0.7)	-	-	(0.7)
At 31 March 2013	110.1	38.4	198.0	-	346.5
Net book value at 31 March 2013	149.5	17.2	122.4	24.6	313.7
At 31 March 2012	127.8	11.8	94.2	30.6	264.4

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.

(b) Included above at 31 March 2013 is freehold land, not subjected to depreciation in the year, of £1.6m (2012: £1.6m).

(c) Included above at 31 March 2013 are tangible assets held under finance leases analysed by asset type as follows:

	Freehold land, operational properties and structures	Plant and equipment	Infrastructure assets	Total
	£m	£m	£m	£m
At 31 March 2013				
Cost	37.3	5.5	1.2	44.0
Accumulated depreciation	(27.1)	(5.5)	-	(32.6)
Net book value	10.2	-	1.2	11.4
At 31 March 2012				
Cost	37.3	5.7	1.2	44.2
Accumulated depreciation	(26.0)	(5.7)	-	(31.7)
Net book value	11.3	-	1.2	12.5

(d) The net book value of infrastructure assets is stated after the deduction of contributions of £65.9m (2012: £62m) as explained in note 1(e).

8. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	2013	2012
	£m	£m
Balance at year-end	68.5	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

9. STOCKS

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

10. DEBTORS

Debtors comprise:	2013	2012
	£m	£m
Trade debtors (a)	26.2	25.1
Less bad debt provision (a)	(14.3)	(13.6)
	11.9	11.5
Due from group and associated companies (b)	1.4	1.8
Other debtors	2.5	2.6
Prepayments and accrued income	13.5	11.4
	29.3	27.3

(a) Trade debtors are aged as:	2013	2012
	£m	£m
Past due by 0-30 days	1.0	4.1
Past due by 31-120 days	3.0	0.8
Past due by more than 120 days	7.9	6.6
	11.9	11.5

Bad debt provision:	2013	2012
	£m	£m
At 1 April	13.6	12.6
Provision for trade debtors impairment	3.2	2.3
Trade debtors written off during the year as uncollectible	(2.5)	(1.3)
At 31 March	14.3	13.6

(b) The sum of £0.4m (2012: £0.4m) is included within the heading “Due from group and associated companies” in respect of amounts advanced to Bristol Wessex Billing Services Limited, 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.

NOTES TO THE ACCOUNTS

11. CASH ON DEPOSIT

	2013	2012
	£m	£m
Cash on deposit matures:		
- up to three months from the balance sheet date	9.5	44.2
- after three months of the balance sheet date	-	20.3
	9.5	64.5

Cash deposits maturing up to three months from the balance sheet date are considered as liquid resources for the purposes of the Cash Flow statement.

12. CREDITORS – BORROWINGS FALLING DUE WITHIN ONE YEAR

	2013	2012
	£m	£m
Finance leases	2.2	3.4
Term loan	-	15.0
	2.2	18.4

These borrowings are secured as described in note 14.

13. CREDITORS – OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise:	2013	2012
	£m	£m
Receipts in advance	12.0	11.0
Trade creditors	22.7	16.5
Amounts owed to group undertakings	-	0.1
Amounts owed to associates	1.2	1.8
Other taxation and social security	0.7	0.7
Corporation tax payable	0.3	0.2
Payments received on account	0.8	0.2
Accruals and other liabilities	8.3	10.1
	46.0	40.6

14. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – BORROWINGS AND DERIVATIVES

	2013	2012
	£m	£m
Bank and other term loans – secured	241.2	235.2
Debentures	1.6	1.6
Finance leases – secured	2.8	4.9
Net unamortised premiums arising on issue of term loans	3.3	3.4
Total excluding 8.75% irredeemable cumulative preference shares and interest rate swap	248.9	245.1
Interest rate swap	2.0	1.8
	250.9	246.9
8.75% irredeemable cumulative preference shares	12.5	12.5
Total	263.4	259.4

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. In accordance with FRS 25 the shares are classified as long-term debt.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. Of these, 12,500,000 have been issued and are fully paid (31 March 2012: 12,500,000).

The movements in net unamortised premiums were as follows:

	2013	2012
	£m	£m
Net unamortised premiums at 1 April	3.4	3.6
Amortised during the year	(0.1)	(0.2)
Net unamortised premiums at 31 March	3.3	3.4

The premiums net of expense on issue of new loans are amortised over the terms of the respective loans. Amortisation credits due in future years are as follows:

	2013	2012
	£m	£m
Within one year	0.2	0.2
Between one and two years	0.2	0.2
Between two and five years	0.5	0.6
After five years	2.4	2.4
	3.3	3.4

NOTES TO THE ACCOUNTS

14. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – BORROWINGS AND DERIVATIVES (continued)

Net borrowings and maturities

At 31 March 2013 net borrowings comprise -	Term loans less cash	Finance leases	Debentures and irredeemable preference shares	Interest rate swap	Total 2013	Total 2012
	£m	£m	£m	£m	£m	£m
Repayment due:						
Finance leases	-	0.3	-	-	0.3	2.1
Between two and five years						
Finance leases	-	1.0	-	-	1.0	0.9
Repayable 2017, variable interest at six month LIBOR plus a margin	10.0	-	-	-	10.0	-
Repayable 2017, variable interest at one month LIBOR plus a margin	10.0	-	-	-	10.0	-
Repayable 2017, variable interest at one month LIBOR plus a margin	1.0	-	-	-	1.0	-
After five years:						
- Interest rate swap, exchanging six month LIBOR for a fixed rate of 5.025%	-	-	-	2.0	2.0	1.8
- Other than by instalment – Term loans						
Repayable 2017, variable interest at six month LIBOR plus a margin	-	-	-	-	-	10.0
Repayable 2017, variable interest at one month LIBOR plus a margin	-	-	-	-	-	10.0
Repayable 2032, principal index-linked to RPI, fixed interest at 3.635%*	119.7	-	-	-	119.7	116.0
Repayable 2033, fixed interest at 6.01%*	57.5	-	-	-	57.5	57.5
Repayable 2041 principal index-linked to RPI, fixed interest at 2.701%	43.0	-	-	-	43.0	41.7
Repayable 2017						
- By instalments – Finance leases	-	1.5	-	-	1.5	1.9
Net unamortised premiums	3.3	-	-	-	3.3	3.4
Debentures (listed on the LSE)						
4.00% Consolidated irredeemable	-	-	1.4	-	1.4	1.4
4.25%, 4.00% and 3.50% perpetual irredeemable debentures	-	-	0.2	-	0.2	0.2
Total borrowings due after one year excluding 8.75% irredeemable cumulative preference shares	244.5	2.8	1.6	2.0	250.9	246.9
Current portion of debt	-	2.2	-	-	2.2	18.4
	244.5	5.0	1.6	2.0	253.1	265.3
Cash on deposit (note 11)	(9.5)	-	-	-	(9.5)	(64.5)
Cash at bank and in hand	(3.2)	-	-	-	(3.2)	(7.8)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	231.8	5.0	1.6	2.0	240.4	193.0
8.75% irredeemable cumulative preference shares	-	-	12.5	-	12.5	12.5
Net borrowings	231.8	5.0	14.1	2.0	252.9	205.5

* Coupons as specified in loan documentation. At the time of pricing of these loans, premiums/discounts were determined to reflect prevailing market conditions. The net premiums are included in net unamortised premiums as set out above.

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2013	2012
	£m	£m
Expiring in May 2013	30.0	30.0
Expiring in August 2015	20.0	-
Expiring in August 2017	49.0	-
	99.0	30.0

The facilities are floating rate and incur non-utilisation fees at market rates.

Minimum lease payments under finance leases

Amounts fall due as follows:	2013	2012
	£m	£m
Within one year	2.2	3.4
Between one and two years	0.3	2.1
Between two and five years	1.0	0.9
After five years	1.5	1.9
	5.0	8.3

15. DEFERRED INCOME

Deferred income represents grants and contributions received in respect of non-infrastructure assets less amounts amortised to the profit and loss account.

	2013	2012
	£m	£m
At 1 April 2012	9.3	9.8
Less amortised	(0.5)	(0.5)
At 31 March 2013	8.8	9.3

Prior to 1 April 2010, a type of contribution called “Infrastructure Charges” was partially attributed to the non-infrastructure assets and was treated as deferred income which is amortised in the profit and loss account over the expected useful lives of the related assets.

Subsequently, all such contributions have been attributed to infrastructure assets.

16. FINANCIAL RISK MANAGEMENT

Financial risk factors

The company’s main financial instruments comprise:

- 8.75% irredeemable cumulative preference shares
- borrowings and cash
- various items, such as trade debtors and trade creditors, that arise directly from its operations
- two long-term loans made to Bristol Water Holdings UK Limited.

The company has also entered into gilt locks and an interest rate swap to manage the interest rate risk arising from its operations and 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 treasury department. The treasury 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) Foreign exchange risk

The company trades almost exclusively within the United Kingdom and all material purchases of capital equipment are denominated in sterling. Accordingly the company has no material foreign exchange risk.

(b) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. Cash and cash deposits have been placed with banks on a rolling basis of up to four months earning interest based on LIBID equivalents. There are also interest-bearing fixed rate loans totaling £68.5m (2012: £68.5m) to Bristol Water Holdings UK Limited.

(c) 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 a cash flow hedge of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The company’s policy 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 28% (2012: 28%) of the company’s gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 94% (2012: 87%) of the company’s gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The residue 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. This policy 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.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change 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 2013		31 March 2012	
	Profit before tax £m	Profit after tax £m	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	0.1	0.1	0.3	0.2

Inflation rate sensitivity

The year-end carrying value of index-linked debt held by the company is as follows:

	2013	2012
	£m	£m
Index-linked debt	162.7	157.7

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 2013		31 March 2012	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	1.6	1.2	1.6	1.2

(d) 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 Artesian loan agreements, 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 company has received a waiver to this condition with regard to RBS, following their downgrade by Moody’s to A-2.

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:

	2013	2012
	£m	£m
Long-term loans	68.5	68.5
Cash on deposit	9.5	64.5
Cash at bank and in hand	3.2	7.8
Debtors, net of bad debt provisions made	29.3	27.3
	110.5	168.1

NOTES TO THE ACCOUNTS

16. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk

It is company policy to maintain continuity of funding. At the year-end 90% (2012: 92%) 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.

During the year the company arranged two new facilities, a £20m facility expiring in August 2015, and a £50m facility expiring in August 2017. Of the £50m facility, £1m has been drawn during the year. The £20m facility is undrawn. Both the facilities are floating rate and incur non-utilisation fees at market rates.

Under the terms of the Artesian loan agreements the company is required to maintain a specified sum in nominated accounts to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.5m (2012: £5.5m), 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 on financial liabilities based on the earliest date on which the company is required to pay.

Year ended 31 March 2013	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	22.7	-	-	-	22.7
Due to group and associated companies	1.2	-	-	-	1.2
Corporation tax payable	0.3	-	-	-	0.3
Accruals and deposits received	9.1	-	-	-	9.1
Interest bearing loans and borrowings	11.9	10.2	52.6	525.9	600.6
	45.2	10.2	52.6	525.9	633.9

Year ended 31 March 2012	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	16.5	-	-	-	16.5
Due to group and associated companies	1.9	-	-	-	1.9
Corporation tax payable	0.2	-	-	-	0.2
Accruals and deposits received	10.3	-	-	-	10.3
Interest bearing loans and borrowings	28.2	12.0	31.1	551.6	622.9
	57.1	12.0	31.1	551.6	651.8

(f) Price risk

The company is exposed to risk in prices for materials and services used in its operational processes, including for chemicals and electricity. Risk is minimised through actively monitoring the market and by the use of fixed price supply contracts extending over more than one year where considered appropriate.

(g) 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.

Derivative financial instruments and 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 various hedge transactions. 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 company entered into an interest rate swap effective from 22 October 2008. In accordance with the provisions of FRS 25, 'Financial Instruments: Presentation', and FRS 26, 'Financial Instruments: Recognition and Measurement', the company values its interest-rate swap on the balance sheet. The effective portion of the swap is deferred through the statement of total recognised gains and losses. Should there be any ineffectiveness; any gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account within finance charges.

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.

The table below details the company's remaining contractual payments and receipts until maturity for its interest rate swap. The table is based on the forecast undiscounted cash flows on its derivative financial liability based on the contractual settlement dates.

Year ended 31 March 2013	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	0.1	0.1	0.4	-	0.6
Contractual payments under the interest rate swap	(0.5)	(0.5)	(1.5)	-	(2.5)
Net forecast cash outflow	(0.4)	(0.4)	(1.1)	-	(1.9)

Year ended 31 March 2012	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	0.1	0.1	0.5	0.3	1.0
Contractual payments under the interest rate swap	(0.5)	(0.5)	(1.5)	(0.5)	(3.0)
Net forecast cash outflow	(0.4)	(0.4)	(1.0)	(0.2)	(2.0)

NOTES TO THE ACCOUNTS

17. FINANCIAL INSTRUMENTS

Fair value estimation

The fair values of the cash deposits, trade debtors, trade creditors, loans and overdrafts with a maturity of less than one year are assumed 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.

The fair value of the company's interest-rate swap is based on the market price of comparable instruments at the balance sheet date where they are publicly traded.

Interest-rate swap

At 31 March 2012, the company was party to one interest rate swap which was entered into on 4 March 2008, became effective on 22 October 2008 and will expire on 7 December 2017. The swap is designated against a £10m variable rate bank loan drawn in October 2008. The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025%. In accordance with FRS 26, the liability arising under the swap agreement was recognised in these financial statements, as follows:

	2013	2012
Liability:	£m	£m
Due within one year	-	-
Due after one year	2.0	1.8
	2.0	1.8

In accordance with FRS 26 "Financial Instruments: Recognition and Measurement" 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 2013		31 March 2012	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Primary financial instruments issued to finance the company				
Long-term borrowings	(248.9)	(324.6)	(245.1)	(292.5)
8.75% irredeemable cumulative preference shares	(12.5)	(18.1)	(12.5)	(17.1)
Primary financial instruments issued to finance Bristol Water Holdings UK Limited				
Long-term loans	68.5	82.2	68.5	76.9
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	(2.0)	(2.0)	(1.8)	(1.8)
	(194.9)	(262.5)	(190.9)	(234.5)

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 2013		31 March 2012	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash on deposit	9.5	9.5	64.5	64.5
Cash at bank and in hand	3.2	3.2	7.8	7.8
Debtors	29.3	29.3	27.3	27.3
Financial liabilities				
Current portion of long-term borrowings	(2.2)	(2.2)	(18.4)	(18.4)
Other creditors	(46.0)	(46.0)	(40.6)	(40.6)
	(6.2)	(6.2)	40.6	40.6

18. PROVISIONS FOR LIABILITIES

	2013	2012
	£m	£m
Provision for deferred tax comprises -		
Accelerated capital allowances and capital element of finance leases	39.1	38.1
Deferred income	(1.1)	(1.2)
Short-term timing differences	(0.1)	(0.2)
Retirement benefit obligations	3.1	2.9
Interest rate swap	(0.4)	(0.4)
	40.6	39.2
Effect of discounting	(11.5)	(11.6)
Net provision, including deferred tax on retirement benefit obligations	29.1	27.6
Less, attributable to retirement benefit obligations	(3.1)	(2.9)
Net provision, excluding deferred tax on retirement benefit obligations	26.0	24.7

Deferred tax movement:	2013	2012
	£m	£m
Provision at 1 April	27.6	25.0
Charge to Profit and Loss Account (note 5)	1.5	2.6
Charge/(credit) to Statement of Total Recognised Gains and Losses in respect of:		
Retirement benefit obligations	-	0.1
Interest rate swap	-	(0.1)
Provision at 31 March	29.1	27.6

NOTES TO THE ACCOUNTS

19. CALLED-UP ORDINARY SHARE CAPITAL

The issued and fully paid ordinary share capital of the company is:

	2013	2012
	£m	£m
5,998,025 ordinary shares of £1 each	6.0	6.0

20. MOVEMENTS IN RESERVES

	Share Premium Account	Capital redemption reserve	Hedging reserve	Profit and loss
	£m	£m	£m	£m
At 1 April	4.4	5.8	(1.4)	75.7
Profit for the financial year	-	-	-	13.1
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	0.6
Attributable deferred taxation	-	-	-	-
Fair value of interest rate swap	-	-	(0.2)	-
Attributable deferred taxation	-	-	-	-
Dividends paid	-	-	-	(14.7)
At 31 March	4.4	5.8	(1.6)	74.7

21. DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2013	2012
	£m	£m
Dividends paid		
• Dividend in respect of 2012:		
First interim dividend of 24.95 pence per share, approved by the Board on 22 September 2011	-	1.5
Second interim dividend of 66.69 pence per share, approved by the Board on 24 November 2011	-	4.0
Third interim dividend of 24.81 pence per share, approved by the Board on 29 March 2012	-	1.5
Final dividend of 80.03 pence per share, approved for payment on 30 May 2012	4.8	-
• Dividend in respect of 2013:		
First interim dividend of 25.62 pence per share, approved for payment on 27 September 2012	1.5	-
Second interim dividend of 75.02 pence per share, approved for payment on 26 November 2012	4.5	-
Third interim dividend of 39.18 pence per share, approved for payment on 21 March 2013	2.4	-
Fourth interim dividend of 25.48 pence per share, approved for payment on 27 March 2013	1.5	-
	14.7	7.0

The Board has proposed a final dividend of £3.1m in respect of the year ended 31 March 2013 (31 March 2012: £4.8m).

22. COMMITMENTS

Capital commitments at 31 March 2013 contracted for but not provided were £15.1m (2012: £14.7m).

23. RETIREMENT BENEFIT OBLIGATIONS

(a) Pension arrangements

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for a number of employees. The total cost charged to income of £0.7m (2012: £0.6m) represents contributions payable to the scheme. As at 31 March 2013 and 31 March 2012, all contributions due have been paid over to the scheme.

Defined benefit schemes

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 section was closed to new entrants some years ago and all new eligible employees are offered membership of a stakeholder pension scheme.

In addition to providing benefits to employees and ex-employees of Bristol Water plc, the section provides benefits to former Bristol Water plc employees who transferred to Bristol Wessex Billing Services Limited. The majority of the section assets and liabilities relate to Bristol Water plc 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 in the Operating and Financial Review Report on page 32.

The estimated amount of the total employer contribution expected to be paid to the section for the year ending 31 March 2014 is £2.1m.

(b) Accounting under FRS 17 "Retirement Benefits"

Basis of valuation

The formal actuarial valuation of the Bristol Water plc section of the WCPS as at 31 March 2011 was updated to 31 March 2013, by Lane Clark & Peacock LLP, using the following major assumptions in accordance with FRS 17:

	2013	2012	2011
Assumptions:			
RPI Inflation	3.6%	3.4%	3.7%
CPI Inflation	2.6%	2.4%	3.0%
Pension increases in payment (CPI)	2.6%	2.4%	3.0%
Pension increases in payment (LPI)	2.6%	2.4%	3.0%
Salary increases	4.6%	4.4%	5.2%
Discount rate	4.3%	4.6%	5.5%

NOTES TO THE ACCOUNTS

23. RETIREMENT BENEFIT OBLIGATIONS (Continued)

(b) Accounting under FRS 17 “Retirement Benefits” (Continued)

Asset distribution and expected return

The following table sets out the key assumptions used for the valuation of the company’s section of WCPS. The table also sets out as at the accounting date the fair value of the assets, a breakdown of the assets into the main asset classes, the present value of the section’s liabilities, and the resulting surplus.

	Expected long-term rate of return			Market values of section assets		
	2013	2012	2011	2013	2012	2011
				£m	£m	£m
Equities	7.0%	7.3%	7.8%	14.7	21.2	26.2
Diversified growth funds	6.3%	6.6%	7.3%	5.6	7.0	6.6
Bonds	3.0%	3.3%	3.9%	155.2	137.8	116.6
Cash	0.4%	0.7%	2.1%	0.1	0.7	0.1
Emerging markets multi-asset funds	6.3%	n/a*	n/a*	3.4	-	-
High yield bonds	5.8%	n/a*	n/a*	3.3	-	-
Market value of section assets				182.3	166.7	149.5
Present value of liabilities				(148.3)	(135.3)	(122.8)
Surplus on FRS 17 basis				34.0	31.4	26.7
Amount not recognised due to asset recognition limit				(20.7)	(19.5)	(16.4)
Recognised surplus in the section				13.3	11.9	10.3
Deferred taxation at 23% (2012: 24%, 2011: 26%)				(3.1)	(2.9)	(2.7)
Net pension asset on FRS 17 basis				10.2	9.0	7.6

The overall expected rate of return on assets was 3.9% per annum (2012: 4.7% per annum). This rate was derived by taking the weighted average of the long-term expected rate of return on each of the above asset classes.

The actual return on the section’s assets during the year was a gain of £19m (2012: a gain of £20.8m).

* There was no investment in “Emerging markets multi-asset funds” and “High yield bonds” in years ended 31 March 2012 and 31 March 2011.

Demographic assumptions

The mortality assumptions have been drawn from actuarial table S1NA with a 95% adjustment to mortality rates and with future improvements in line with the CMI 2011 projections from 2003, with a long-term minimum rate of improvement of 1.25% per annum for males and 1.0% per annum for females (these are the same assumptions as adopted at 31 March 2012 but with the long-term minimum rates of improvements updated during the year from 1.0% per annum for males and 0.75% per annum for females adopted as at 31 March 2012). These tables assume that the average life expectancy for a male pensioner currently aged 60 is 27.4 years (2012: 26.9 years) and for a female pensioner currently aged 60 is 29.7 years (2012: 29.2 years).

The allowance made for future improvements in longevity is such that a male member retiring at age 60, 25 years from the balance sheet date is assumed to have an increased average life expectancy from retirement of 30 years, whilst that for a female retiring at age 60, 25 years from the balance sheet date is assumed to have increased to 31.8 years.

Sensitivity

The assets and liabilities of the section are subject to volatility as the assets are linked to gilt and equity markets and the liabilities are linked to yields on AA-rated corporate bonds.

As an indication all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the liabilities of the section of approximately £2.2m; and
- a 25% rise in the value of the section’s return seeking assets portfolio would increase the surplus (before the consideration of any balance sheet limitation that might apply) by about £6.7m.

Contributions

Contributions paid in the year to the section including those from Bristol Wessex Billing Services Limited were £2.5m (2012: £2.1m). Contributions paid in the year include £2.1m of regular employer contributions and £0.4m of additional contribution as described previously. For normal employer contributions, during the year the company was required to contribute at the rates of 28.9% (2012: 21%) for the main sub section and 17.6% (2012: 10%) for the alternative benefits sub section of the relevant payroll costs. The increase in regular employer contributions was a result of the Trustee’s advice as described previously.

Analysis of charges to Profit and Loss Account:

	2013	2012
	£m	£m
Analysis of the amount charged to operating profit		
Current service cost under FRS 17	1.7	1.7
Total operating charge	1.7	1.7

	2013	2012
	£m	£m
Analysis of the amount charged to other finance cost		
Expected return on pension section assets	6.1	6.7
Interest on post-retirement liabilities	(6.1)	(6.7)
Net charge to other finance cost	-	-

	2013	2012
	£m	£m
Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Gain on pension section assets	12.9	14.1
Experience gains/(losses) arising on section liabilities	0.9	(2.6)
Loss due to changes in assumptions underlying the FRS 17 value of the section’s liabilities	(12.0)	(7.2)
Actuarial gain	1.8	4.3
Less: Effect of asset recognition limit	(1.2)	(3.1)
Actuarial gain recognised in STRGL	0.6	1.2

The cumulative amount of actuarial gains and losses recognised outside profit and loss account at the year-end, excluding the impact of the asset limit on the balance sheet, is a gain of £5,060,000 (2012: a gain of £3,308,000).

NOTES TO THE ACCOUNTS

23. RETIREMENT BENEFIT OBLIGATIONS (Continued)

(b) Accounting under FRS 17 “Retirement Benefits” (Continued)

	2013	2012
	£m	£m
Movement in section pre-tax financial position during the year		
Surplus in section at 1 April	31.4	26.7
Movement in year:		
Current service cost (employee and employer)	(1.7)	(1.7)
Aggregate regular contributions (employee and employer)	2.1	1.6
Additional contributions	0.4	0.5
Charge to other finance cost	-	-
Actuarial gain recognised in STRGL	1.8	4.3
Surplus in section at 31 March, before deducting amount not recognised due to asset recognition limit	34.0	31.4
	2013	2012
	£m	£m
Movement in present value of the defined benefit obligation during the year		
Present value of section liabilities at 1 April	135.3	122.8
Movement in year:		
Current service cost (employee and employer)	1.7	1.7
Interest cost	6.1	6.7
Actuarial loss	11.1	9.8
Benefits paid	(5.9)	(5.7)
Present value of the defined benefit obligation at 31 March	148.3	135.3
	2013	2012
	£m	£m
Movement in fair value of the section assets during the year		
Fair value of the section assets at 1 April	166.7	149.5
Movement in year:		
Expected return on section assets	6.1	6.7
Actuarial gain	12.9	14.1
Aggregate regular contributions (employee and employer)	2.1	1.6
Additional contributions	0.4	0.5
Benefits paid	(5.9)	(5.7)
Fair value of the section assets at 31 March	182.3	166.7

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Market value of section assets	182.3	166.7	149.5	143.1	123.8
Present value of liabilities	(148.3)	(135.3)	(122.8)	(134.3)	(106.2)
Surplus in the section	34.0	31.4	26.7	8.8	17.6
	2013	2012	2011	2010	2009
Experience adjustments on scheme liabilities					
– Amount (£m)	0.9	(2.6)	2.2	3.0	0.9
– Percentage of scheme liabilities	1%	(2%)	2%	2%	1%
Experience adjustments on scheme assets					
– Amount (£m)	12.9	14.1	2.0	16.2	(19.6)
– Percentage of scheme assets	7%	8%	1%	11%	(16%)

24. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Reconciliation of operating profit to net cash inflow from operating activities -

	2013	2012
	£m	£m
Operating profit	26.9	24.5
Depreciation, net of amortisation of deferred income	34.7	32.2
Difference between pension charges and normal contributions	(0.4)	0.1
Cash flow from operations	61.2	56.8
Working capital movements -		
Stocks	0.1	(0.3)
Debtors	(2.2)	(4.8)
Creditors and provisions	0.7	4.6
Additional contributions to pension scheme	(0.4)	(0.5)
Net cash inflow from operating activities	59.4	55.8

(b) Reconciliation of net cash flow to movement in net borrowings -

	2013	2012
	£m	£m
(Decrease)/Increase in cash in the year	(4.6)	5.4
Cash used to repay borrowings	18.2	2.6
Cash from new borrowings	(1.0)	-
Decrease in cash deposits in the year (note 11)	(55.0)	(12.8)
Indexation of debt and amortisation of fees and premium not affecting cash flow	(42.4)	(4.8)
Fair value of interest rate swap not affecting cash flow	(4.8)	(7.0)
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	(0.2)	(0.8)
Net borrowings at 31 March including 8.75% irredeemable cumulative preference shares	(205.5)	(192.9)
Net borrowings at 31 March including 8.75% irredeemable cumulative preference shares	(252.9)	(205.5)

NOTES TO THE ACCOUNTS

24. SUPPLEMENTARY CASH FLOW INFORMATION (Continued)

(c) Analysis of changes in net borrowings during the year -

	Opening net borrowings	Cash flows in the year	Maturity profile	Adjustments to debt not affecting cash flow*	Closing net borrowings
	£m	£m	£m	£m	£m
Cash at bank and in hand	7.8	(4.6)	-	-	3.2
Cash deposits	64.5	(55.0)	-	-	9.5
Cash at bank and cash deposits	72.3	(59.6)	-	-	12.7
Borrowings due within one year	(18.4)	18.2	(2.0)	-	(2.2)
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares and net unamortised premiums in respect of loans	(257.6)	(1.0)	2.0	(4.8)	(261.4)
Fair value of the interest rate swap	(1.8)	-	-	(0.2)	(2.0)
Net borrowings including 8.75% irredeemable cumulative preference shares	(205.5)	(42.4)	-	(5.0)	(252.9)

* Represents indexation of term loans less amortisation of net premium on borrowings, and the change in fair value of the interest rate swap.

25. 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 and key management personnel.

The principal related parties are:

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

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

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group, which owns 100 class 'B' shares in the company, representing a holding of 50% of the voting and equity rights of the company. BWBSL is a joint venture undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services to this company and Wessex Water Services Limited, under a cost sharing arrangement.

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

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

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	
	2013	2012	2013	2012
	£m	£m	£m	£m
Members of the BWHUK group				
BWHUK management charges	-	0.2	0.1	-
Members of the Agbar group				
Sociedad General de Aguas de Barcelona S.A.	-	0.1	-	-
Aqualogy Solutions and Technologies UK Limited	-	0.1	0.2	0.1
AEL	-	0.3	0.5	0.1
Marral Chemicals Limited	-	0.1	-	0.1
Joint ventures of the BWHUK group				
BWBSL				
- management charges	-	-	2.4	2.4
- capital expenditure	-	-	0.4	0.1
- other recharges	-	-	0.5	0.4
Joint ventures of the Agbar group				
ASTS				
- management charges	-	-	1.4	1.3
- capital expenditure	-	-	1.3	0.6
- other	-	-	0.3	0.3
	-	0.8	7.1	5.4

	Amounts due from		Amounts due to	
	2013	2012	2013	2012
	£m	£m	£m	£m
Members of the BWHUK group				
BWHUK	-	0.3	-	0.1
Members of the Agbar group				
AEL	-	-	-	0.1
Joint ventures of the BWHUK group				
BWBSL	1.4	1.5	0.9	1.0
Joint ventures of the Agbar group				
ASTS	-	-	0.3	0.7
	1.4	1.8	1.2	1.9

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.

Bristol Water plc paid Wessex Water Services Limited £nil (2012: £0.3m) for a share of other assets used operationally by BWBSL but capitalised by Bristol Water plc.

Remuneration of key management personnel

Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report and in Note 3.

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate part company is Bristol Water Core Holdings Limited, a company incorporated in England and Wales.

Ultimate parent company and controlling party is considered by the directors to be Capstone Infrastructure Corporation, a company incorporated in Canada, due to its majority ownership of CSE Water UK Limited.

Until 10 May 2012 Capstone indirectly owned a 70% share in the company. On 10 May 2012 Capstone sold an indirect share of 20% in the company to Itochu Corporation of Japan, a company incorporated in Japan. The remainder 30% share is indirectly owned by Sociedad General de Aguas de Barcelona S.A. (Agbar), a company incorporated in Spain.

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

We have audited the financial statements of Bristol Water plc for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 56, 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 International Standards on Auditing (UK and 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 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.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

The directors have requested, (because the company applies Listing Rules 9.8.6R 3, 5 and 6 of the Financial Conduct Authority as if it were a listed company), that we review the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review by the Listing Rules of the Financial Conduct Authority and that we review the directors' statement, set out on page 57, in relation to going concern. We have nothing to report in respect of these reviews.

At the request of the directors, we have also audited the part of the Directors' Remuneration Report that is described as having been audited. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

11 June 2013

FINANCIAL HISTORY

PROFIT AND LOSS ACCOUNTS	2013	2012	2011	2010	2009
Years ended 31 March	£m	£m	£m	£m	£m
Turnover	114.2	108.0	100.7	99.7	96.7
Operating profit	26.9	24.5	18.6	27.9	29.1
Interest and irredeemable preference share dividends	(11.5)	(13.4)	(10.6)	(4.2)	(11.5)
Net finance (expense)/income on retirement benefit obligations	-	-	(0.4)	(0.8)	(0.2)
Profit on sale of tangible assets	-	-	-	0.2	-
Profit before taxation	15.4	11.1	7.6	23.1	17.4
Taxation	(2.3)	(3.9)	(0.8)	(4.5)	(5.3)
Profit after taxation	13.1	7.2	6.8	18.6	12.1
Dividends paid	14.7	7.0	2.9	10.2	8.8
BALANCE SHEETS	2013	2012	2011	2010	2009
At 31 March	£m	£m	£m	£m	£m
Tangible assets	313.7	264.4	240.7	251.2	251.7
Other investments	68.5	68.5	68.5	68.5	68.5
Net current (liabilities)/assets	(4.9)	42.0	75.0	19.7	16.1
Total assets less current liabilities	377.3	374.9	384.2	339.4	336.3
Debt due after one year, excluding irredeemable preference shares	(250.9)	(246.9)	(257.3)	(215.8)	(220.2)
Irredeemable preference shares	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Other creditors due after one year	-	-	-	-	(0.2)
Provisions for liabilities	(26.0)	(24.7)	(22.3)	(22.2)	(22.8)
Deferred income	(8.8)	(9.3)	(9.8)	(10.3)	(10.2)
Retirement benefit surplus	10.2	9.0	7.6	6.3	6.3
Net assets	89.3	90.5	89.9	84.9	76.7
CASH FLOW	2013	2012	2011	2010	2009
Years ended 31 March	£m	£m	£m	£m	£m
Cash flow from operations	59.4	55.8	49.0	48.0	47.5
Net interest and irredeemable preference share dividends paid	(6.6)	(6.9)	(5.8)	(6.1)	(6.6)
Tax paid	(0.7)	(2.0)	(4.0)	(2.8)	(2.1)
Capital expenditure net of contributions	(79.8)	(44.7)	(20.4)	(20.5)	(29.0)
Other investing activities	20.3	26.5	(46.8)	-	-
Dividends paid on equity shares	(14.7)	(7.0)	(2.9)	(10.2)	(8.8)
Cash flow before management of liquid resources and financing	(22.1)	21.7	(30.9)	8.4	1.0
Management of liquid resources	34.7	(13.7)	(5.5)	(5.6)	1.9
Net (decrease)/increase in financing	(17.2)	(2.6)	37.0	(2.2)	(1.9)
(Decrease)/increase in cash	(4.6)	5.4	0.6	0.6	1.0

Notes: All comparative data has been restated where necessary, and possible, to conform to current accounting practices. All data includes exceptional items where relevant.

This financial history does not form part of the audited financial statements.