

BRISTOL WATER plc

ANNUAL REPORT 2015

Registered number - 2662226

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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.

CHAIRMAN'S WELCOME

This was the final year of our 2010-15 Business Plan and we are bringing a period of significant capital investment to a close, while deeply immersed in planning for the next five-year cycle. We continue our focus on delivering a quality service to our customers and have increased our customer engagement to better understand their needs and expectations.

We face uncertainty with our Price Review for 2015-20, which at the time of writing this report is still being re-determined by the Competition and Markets Authority ("CMA"), but we remain dedicated to achieving the best outcomes for our customers, now and in the future.

Looking back on 2014/15, we have achieved good results in most priority areas for our customers. Our water continues to meet some of the world's most stringent quality standards more than 99.9% of the time; we have beaten our regulator's leakage target by a significant margin and are one of the best performers in the country; we have also improved resilience so that thousands more customers have an alternative supply in the event of an asset failure.

Unfortunately, this year we have suffered some major bursts. We sincerely apologise to all customers affected and have done our best to ensure that services were reinstated as quickly as possible. These exceptional events, the largest being in Kingswood and Burnham on Sea, stretched our resources and tested our service in an unprecedented way, and have therefore affected some of our performance figures. Encouragingly this has not been reflected in what customers think of us because, despite these large bursts, 70% of our customers rated our service as excellent or good.

We carried out detailed customer research following the Kingswood and Burnham incidents and in both cases nearly three quarters (74% and 73% respectively) of respondents were satisfied with Bristol Water's handling of the incident and our customer care was praised by the local Member of Parliament (MP). At times of emergency the bond between Bristol Water and the people we serve really shines through as everyone pulls together.

Minimising bursts in our network and improving security of supply is one of the driving forces for investment and in the last five year period we have completed one of the biggest capital programmes in Bristol Water's history, costing £288.9m. As well as securing a reliable and quality supply for hundreds of thousands of customers now and long into the future, this investment has improved overall resilience of our network. The number of households supplied by a single source has more than halved, from 628,000 to around 296,000 so in the event of a burst we can supply water from an alternative source.

This year has been one of the busiest ever for our engineering project teams who have been up against the clock finalising two major schemes in the five-year capital programme: the £25m renovation scheme of 59km of old trunk mains through the heart of Bristol and the £22m Bristol Resilience Scheme. For local people, our customers, it would be hard not to have noticed Bristol Water's programme of works in the last five years and we have adopted the phrase 'short term inconvenience, long term benefits' to put the unfortunate disruption caused by road works into perspective.

Most of the trunk mains that have been renovated were laid more than 100 years ago. When we have explained that to customers and commuters they realise the importance of the work, and that we are investing in the future of the region.

Securing investment in our network is vital. Five years ago we took our case against Ofwat to the Competition Commission because we disagreed with the regulator's final determination for the five year asset management plan ("AMP") we had proposed in our Business Plan. The redetermination allowed for a bill increase to enable us to make the right level of investment in our ageing assets.

So, it is with inevitable deep disappointment that five years later we find ourselves defending our Business Plan again.

CHAIRMAN'S WELCOME (continued)

On 10 July the CMA issued its Provisional Findings broadly suggesting an increase in expenditure allowances and a reduction in the scope of capital work required to be undertaken in the period compared to the Ofwat Final Determination.

We have faith in the CMA process to deliver a fairer and more realistic redetermination in September this year so that we can start in earnest the projects that our customers have entrusted us to deliver.

As a business serving Bristol for 168 years be assured we are in this for the long game; we have to think beyond the five year remit of regulatory cycles. The decisions we make now are based on a 30 year water resource plan to safeguard supply and enable the region to expand in population and prosperity.

There are many other changes that we have to prepare for; a recovering economy, population and business growth in the new 'Severn Powerhouse' and booming towns of Somerset, and developments at Hinkley Point. In our own sector, climate change, retail separation of non-household business and customer experience are priorities.

We launched Project Channel last year to address the need for a progressive operating model and to address efficiency targets that we had included in our Business Plan. This will mean a reduction in size of the workforce by 10%, a difficult but essential change that is currently in the process of being implemented. Bristol Water is shaping up to be stronger and more efficient to face the challenges ahead.

Our foundations are firm; our growing customer base has contributed to the increase in turnover from £123.9m in 2013/14 to £132.8m and we have demonstrated total commitment and expertise in delivering a hugely challenging capital investment programme and high quality service to our customers. I would like to thank all of our staff for their hard work and dedication over the past year.

Keith Ludeman
Chairman
24 July 2015

CEO STATEMENT

The last 12 months have shown our continuing commitment to deliver a great service to our customers while under pressure to finalise an ambitious capital investment programme and faced with two major operational incidents affecting a large number of people. They say that challenges make you stronger and the last 12 months have certainly put our processes and our people to the test, and I'm pleased at our response both as a business and as a part of the community.

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

Investment in our water supply

We are now at the end of the fifth year in the current regulatory period 2010-15 and have completed the extensive AMP5 capital programme. During the year, the capital expenditure of the Company was £59.3m, resulting in a total investment for the five years of £288.9m. This is our record highest investment in an AMP period to date and demonstrates the Company's commitment to invest in our assets to maintain them and enhance service to our customers.

Capital investment during the year included the renovation of 26.8km of trunk mains and the replacement of 30.2km of distribution mains, completion of a major refurbishment of one of our main raw water reservoirs at Barrow, refurbishment and pump replacement at our large pumping stations; Purton, Blagdon and Victoria, and smaller sites; Almondsbury and Banwell Springs, and completion of water treatment improvement schemes at Egford and Sherborne.

Our trunk and distribution main projects have unavoidably impacted on customers and commuters and we have worked extremely hard to mitigate this by utilising non-disruptive engineering techniques wherever possible and stepping up the communication before and during the works to give people notice and to minimise disruption.

Customer service achievements

Our customer service performance is measured through feedback and surveys, and Ofwat uses the Service Incentive Mechanism ("SIM") to benchmark customer service across the industry. The first four years of AMP5 saw us consistently in the top quartile for SIM and achieving more than 90% customer satisfaction scores. In 2014/15 our customer satisfaction has dropped to 69% and this is largely due to a larger proportion of people responding neutrally rather than positively or negatively in the survey. We believe that the disruption caused by our roadworks and the two major bursts at Kingswood and Burnham on Sea, which gained significant media coverage, have slightly altered people's perception of our business and are working hard to rebuild satisfaction levels through new customer service initiatives and more proactive communications.

We commissioned Imperial College London to carry out an independent forensic report into the Kingswood burst. It shows how the 900mm diameter main cracked as a result of stress caused by soil conditions that altered after a prolonged dry spell and we have included details of this report on page 21 because this single event has impacted our results so dramatically.

I visited Fisher Road in Kingswood at the time of the burst and returned eight months later to welcome eight families back into their homes, which had to be completely renovated following the flooding. I am pleased to see that life is back to normal for these customers and that we have been able to demonstrate our duty of care.

We continue to put customers at the heart of our strategy and operations and regularly obtain customers' views on what we do, how we perform and where we need to improve. Our local call centre has extended its opening hours so you can speak to us after work and at weekends. We are doing more than ever to help people who are struggling to pay their bills and continue to work closely with debt agencies and community support groups to promote our assist schemes and social tariffs, increasing the number of beneficiaries by 27% to 9,532 households this last year.

CEO STATEMENT (continued)

Water resources

Rainfall in the year ending in March 2015 was a total of 941mm for the Mendip reservoir catchments, marginally above the long term average for the area. A relatively wet spring prolonged reservoir inflow into late June 2014. As a result, total reservoir volume was maintained at a relatively high level during the summer and full recharge was achieved on target at the end of March 2015. Due to the high level of our reservoir storage, we were able to maximise use of water from Mendip reservoirs throughout the year. Consequently, we did not need to use water from the River Severn to support our southern supply zones which would have cost us more in pumping and treatment processes.

In 2014/15 we supplied on average 267 million litres per day (Ml/d) to a total population of 1.17million household and non-household customers. The total water into supply was 3 Ml/d more than the previous year (264 Ml/d 2013-14). This increase was partially accounted for by a rise in non-household demand compared to 2014. The remainder was due to a 1.5 Ml/d rise in leakage to 45 Ml/d, (still well below our AMP5 target of 49 Ml/d).

We have one of the lowest levels of water leakage in the country, consistently in the top quartile in the industry. Again, we have significantly beaten our leakage targets by continuing with our proactive approach using a range of techniques and resources. With over 6,600km of mains to maintain, we continually review the leakage reduction activity in light of the costs and benefits of such work. We are at the forefront of innovation in responsive district metering that enables us to detect leaks and use the distribution network more efficiently.

The quality of drinking water we supply is already very high with 99.92% of legally required samples meeting UK and European Community standards.

This year we are disappointed to report a significant increase in 'unplanned customer minutes lost' per property, the high average figure is largely due to Burnham on Sea and Kingswood events I have already mentioned. These seriously impacted on our usual high reliability performance – up from 13.95 to 152.4. Unfortunately, such incidents do happen but we are using the lessons learnt to improve our plans to manage them and have a better response to our customers.

Financial performance

The stable financial performance that I reported in September 2014 continues. Turnover increased by £8.9m to £132.8m and profit before tax increased by £6.9m to £21.4m. These results reflect the net impact of the 6.5% increase in prices allowed by Ofwat in 2009 - required for the AMP5 capital investment programme, an increase in demand from metered customers, higher operating costs, and lower depreciation charge for infrastructure assets during the year. The increase in operating costs is predominantly driven by inflationary and above inflation price increases, the cost of the ongoing efficiency programme, mentioned below, and costs in relation to the regulatory process for finalising the Business Plan 2015-20.

A comprehensive analysis of our financial results can be found in the Strategic Report on page 25. Our business efficiency initiative programme, Project Channel, has progressed as planned and has identified a new business operating model that is now being implemented. This major restructure results in a 10% reduction in our workforce which will happen over the next year. It will put us in better shape for the future challenges in this sector, with retail separation for non-household customers, and other regulatory initiatives.

CEO STATEMENT (continued)

Being a responsible business

From an environmental perspective, we continue to meet all our targets ensuring that all our reservoirs remain at the highest assessment levels for Sites of Special Scientific Interest.

We have launched a pioneering initiative called the Biodiversity Index which enables us to measure the impact of our projects on natural habitats and helps us attain equal or improved status following our work. This year, our environmental focus is sharper than ever as we embrace Bristol's status of European Green Capital in 2015. Amongst the many projects we are working on is the world's first live laboratory at one of UWE's student villages, using the students as subjects to test how they use water and to assess the impact of water saving ideas.

Combine this with our continued efforts in the community promoting water efficiency and we can all enjoy the benefits of changing our behaviour and attitude about water. By giving out 30,000 free water saving devices we have potentially saved approximately half a million litres of water each day – this saves money and energy and ultimately reduces our carbon footprint.

Going forward, we are determined to develop and build on this year's initiatives to ensure we continue to deliver improved customer service alongside enhanced operational efficiency. We start from a position of strength due to the commitment and professionalism of our staff, many of whom have devoted large parts of their working lives to Bristol Water.

Luis García
Chief Executive Officer
24 July 2015

STRATEGIC REPORT

The directors present their Strategic Report on the Company for the year ended 31 March 2015.

OUR BUSINESS

Since Bristol Water was founded over 160 years ago many things have changed but our guiding principle has remained the same. Our customers' needs have been at the centre of everything we do, they guide the decisions we make and the actions we take.

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

We are one of 18 companies in the UK who distribute water and Bristol is one of eight that focus exclusively on water, not wastewater. In our supply area, wastewater services are provided by Wessex Water and to make it easier for our customers and provide an efficient service together we set up Bristol Wessex Billing Services Limited (BWBSL) so we only send one bill.

We are acutely aware how important a reliable water supply is to everyday life. We understand the importance of making the right decisions to provide an affordable, high quality service into the future. Through our passion to deliver a great service, we place the customer at the centre of our decision making. We listen to their views and adapt our approach with the intention to meet their ever increasing expectations.

Our business model and strategy

The latest data from the Office of National Statistics ("ONS") projects that the population we supply will increase from 1.2 million to nearly 1.5 million by 2040. Over the next 10 years, the ONS have calculated the population will increase by 7.9% in our supply area. This is comparable to the much publicised high growth rates in the South East of England of 7.8% over the same period and is 15% higher than the regional average for the South West overall. The rate of house building is also expected to increase to accommodate the rising population. In 2014/15 we supplied water to an additional 3,469 new households and 294 businesses.

We are committed to fulfilling the growing demand and delivering a reliable supply and high level of service that our customers have told us they want. We aim to outperform our regulatory commitments through a business model that helps generate significant efficiencies.

Our vision "to meet customers' expectations by providing an outstanding water service in a sustainable and affordable way" means that we have to:

- provide the service our customers require;
- work to protect and enhance our environment;
- actively support our local communities;
- support our employees to achieve their full potential in a safe workplace;
- deliver good value to our other stakeholders whilst managing our supply chain fairly;
- assess long-term demand for water and determine the nature and phasing of investments in our infrastructure to meet this; and
- provide sustainable reasonable growth in the dividend whilst retaining a robust capital structure.

STRATEGIC REPORT (continued)

Regulatory framework

The regulatory framework for Water Companies in England and Wales is well established and highly transparent. Ofwat is the economic regulator and its main duties are to:

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

Other regulatory bodies include:

- The Drinking Water Inspectorate (“DWI”), which is responsible for assessing the quality of drinking water in England and Wales, taking enforcement action if standards are not being met and other appropriate action if water is unfit for human consumption.
- The Environment Agency (“EA”), which regulates licences for water abstraction and preserves and improves the quality of rivers, estuaries, coastal waters and groundwaters, through pollution control powers and the regulation of discharge contents.
- The Consumer Council for Water (“CCWater”), which is an independent organisation whose role is to provide information of use to consumers and to promote the interest of all water consumers.

Price Review process (2015-20)

This regulatory period (2015-20) is known as Asset Management Plan period 6 (“AMP6”) and the price that water companies can charge their customers is set through Ofwat’s price review process (known as PR14). In 2017 the UK Government plans to introduce retail competition for all non-household customers, removing the eligibility requirement to use 5 million litres a year that is currently in place. To support the expansion of retail competition, Ofwat has set separate price controls for wholesale services, with different retail controls for household and non-household customers.

Ofwat published its Final Determination for the regulatory period 2015-20 on 12 December 2014. In line with the PR14 process, where companies do not accept their final determination a reference can be made to the Competition and Markets Authority (CMA) to make a redetermination. On 6 February 2015, our Board of Directors rejected the Final Determination and asked Ofwat to refer it to the CMA. Bristol Water rejected Ofwat’s Final Determination, primarily on the grounds that price limits were too low for the outputs required.

On 10 July the CMA issued its provisional findings broadly suggesting an increase in expenditure allowances compared to Ofwat’s Final Determination. The net effect of the Provisional Findings is an increase in average charges to customers of approximately 3% per annum in real terms, and a reduction in the scope of capital work required to be undertaken in the period compared to the Ofwat Final Determination.

The CMA is expected to make its Final Determination by September 2015.

STRATEGIC REPORT (continued)

Long-term Strategy

Bristol Water's Aims and Outcomes



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

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

The population we serve is expected to increase by approximately 25% and the number of properties by approximately 30%. It is anticipated that there will also be a growth in the number of businesses we serve to support this growing population. This all adds to the demand for water and increases the risk of shortages. Climate change is expected to lead to drier summers, reducing water availability, particularly in periods of extreme weather conditions such as drought. There will also be an increased risk of flooding as the winters become wetter which may in turn threaten the quality of our water. Our WRMP sets how we propose to manage these challenges while continuing to provide affordable, secure and safe water supplies.

One of the proposals included in the plan is a new reservoir at Cheddar, which has received planning permission from Sedgemoor District Council but awaits economic regulatory approval. The reservoir would provide 16 million litres of water a day, enough to meet the average daily requirements of an additional 100,000 people, and would take approximately 10 years to bring it into service.

Bristol Water has one of the lowest leakage levels in the industry in the UK, performing within the top four of the 18 companies in England and Wales using the commonly used KPI of total leakage in litres/property/day. But we want to improve further in line with our WRMP. By 2020, we aim to reduce leakage to 16% of water produced (compared to over 20% in 2009/10).

STRATEGIC REPORT (continued)

Beyond 2019/20, our preference is to set a long-term target of leakage reduction so that only 10% of the volume of water put into the distribution system is lost through leakage. We will achieve this by continued metering and further active leakage control using the latest technologies.

Retail competition

The Water Act 2014 put an obligation on Ofwat and the sector to open the water and sewerage services to non-household customers to competition from 2017. Our shareholders are working with the shareholders of Wessex Water to create Water2Business, to offer tailored water management services to businesses in our area and across the UK. Water2business applied for a water supply licence in March of this year.

CURRENT PERFORMANCE

We measure our performance against targets that are set in order to maintain and improve our service. This year our operational performance has been dominated by two exceptional bursts that have impacted adversely in key areas.

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

OPERATIONAL KPIs

Aim	Outcome	Performance Measure/KPI	Units	Annual Target	2014/15	2013/14
Highly reliable	Reliable supply	Unplanned customer minutes lost ¹	Minutes	14.3	152.4	14.0
		Asset reliability (below ground assets)	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
		Asset reliability (above ground assets)	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
	Resilient supply	Population at risk from asset failure due to an extreme event*	Population	311,629	296,145	311,629
	Sufficient supply	Security of supply index	No.	100	100	100
		Hosepipe ban frequency	Return period (1 in 'X' years)	15	15	15
Excellent quality	Safe drinking water	DWI standards ²	%	99.96	99.92	99.97
	Water is good to drink	Negative water quality contacts ³	No.	2,500	2,576	2,561
Environmentally sustainable	Efficient use of resources by the Company	Leakage	MI/day	49.0	45.1	43.7
		Pumping efficiency*	%	55	55.6	55
	Efficient use of water by customers	Per capita consumption	litre/head/day	145	143	144
		Meter penetration (household)	%	46	46	42
	Sustainable environmental	Total carbon emissions	Tonnes CO2	45,919	44,931	41,995
			Kg/person	39.5	38.5	36.2

Aim	Outcome	Performance Measure/KPI	Units	Annual Target	2014/15	2013/14
	impact	Raw water quality of sources*	Improving/ Stable/ Marginal/ Deteriorating	Not set ⁴	Deteriorating	Deteriorating
		Biodiversity Index*	Improving/ Stable/ Marginal/ Deteriorating ⁵	New measure	17,596	Not assessed
		Waste disposal compliance*	%	97	99	99
Responsive to customers	Affordable Bills	Percentage customers in water poverty*	%	2.5	2.5	2.4
	Satisfied customers	Ofwat measurement of customer service (SIM) ⁶	Score/100	86	80	85
		General satisfaction survey ⁷	%	Greater than 93	69	93
		Value for money rating ⁸	%	70.3	73.0	70.0
	Easy to contact	Ease of contact from surveys ⁸	%	Above 96.5	95.2	96.2
	Bills are accurate and easy to understand	Negative billing contacts ⁹	No.	2,570	2,612	2,686
Best people right culture	Safe working practices	No. of accidents reportable to Health and Safety Executive ("HSE") ^{2, 10}	No.	Nil	1	4
	Skilled and motivated workforce	Staff satisfaction survey	% of respondents who like their job	Survey biannual	Due Autumn 2015	No survey
Sustainable business	Investor confidence	Credit rating	Moody's rating	Baa1	Baa1 (negative watch)	Baa1
	Fair return to investors	Post tax return on capital	%	4.9	5.4	3.9
	Highly reputable	Customer survey ¹¹	%	83	67	83
		Stakeholder survey ¹²	%	53	55	53

1. 2014/15 was dominated by two particularly large incidents affecting large populations, as detailed on the following page.
2. Based on 12 months to 31 December ending in the relevant financial year.
3. 2014/15 and 2013/14 results follow revised calculation method suggested by DWI. 2013/14 figure reported last year was 2,231 using our AMP5 Business Plan method.
4. This is a new measure developed for monitoring our performance in AMP6; we have begun collecting performance data but have not set a target for 2014/15.
5. Biodiversity Index is a new approach to quantify the impact of our actions on the environment, and this figure represents the value of the biodiversity of the sites we own and manage in 2014/15. In future, performance will be measured in relation to this base figure.

STRATEGIC REPORT (continued)

6. This year Ofwat tested a new methodology for the SIM, which has now come into effect. For consistency with past figures and other water companies, we are using the old methodology for this report.
7. Based upon the results of our annual survey of 500 household customers selected at random from the total customer base, who were asked how they rate our service.
8. Based upon the results of our monthly SIM surveys of a sample of approx. 200 customers who have contacted us in the year, who were asked to rate us in terms of value for money.
9. Based upon a subset of the unwanted billing contacts reported for SIM purposes by our billing company BWBSL.
10. 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.
11. Based upon the results of our annual survey of 500 household customers selected at random from the total customer base and asked to rate the Company's reputation.
12. Based upon the results of our stakeholder survey, reflecting the views of 31 stakeholders (50 in 2013/14) selected at random and asked to rate the Company in terms of its overall CSR performance.

*This information is provided for the information of our customers and stakeholders, and we will begin formally reporting against these measures from 2015/16.

Case study

Providing emergency and protection services to the communities in our supply area, Avon Fire and Rescue is committed to providing a safer place for people to live, work and visit.

"Avon Fire & Rescue Service works closely with Bristol Water to ensure that in the event of a fire requiring large quantities of water, supplies are readily available. As well as supplying the water we need to extinguish fires, our work with Bristol Water includes ensuring all the hydrants in the area are maintained and in good working order so that should we need water from them we can access it. Fire can spread rapidly so it is vitally important to ensure that we have access to good water supplies at excellent pressure levels. This means we can prevent fires from spreading and ensure the safety of the community."

Avon Fire & Rescue Service Area Manager Jim Wemyss

Highly reliable

Our customers rely on us to supply water without restriction or interruption, so offering a reliable and resilient service is of paramount importance.

Reliable supply

Our performance for reliable supply is assessed on the number of unplanned 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).

Unfortunately, 2014/15 was dominated by two particularly large incidents that resulted in large numbers of customers being without water for a considerable period. This resulted in our performance being well below target at 152.4 Unplanned Customer Minutes Lost (UCML) per property (13.95 in 2013/14).

Whilst we believe these events were exceptional and are unlikely to recur, we have sought the opinion of those affected to understand their views of our response. Overall, customers were pleased with how we responded to these events, but areas for improvement were identified. We will incorporate these findings into our emergency planning procedures.

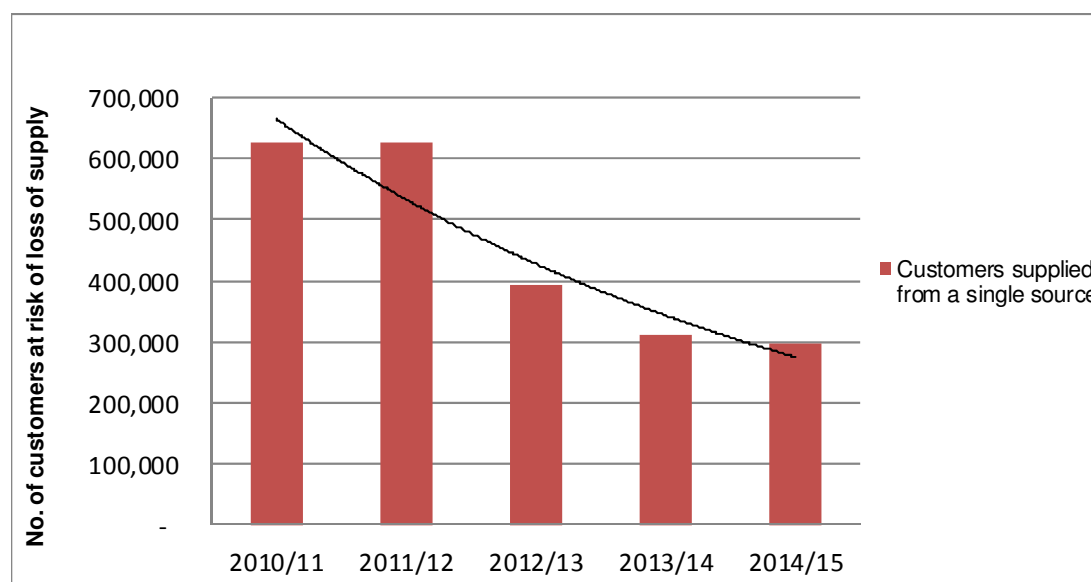
STRATEGIC REPORT (continued)

In other areas of our performance we were within the target range. As a result our target to maintain 'stable' asset reliability in managing our assets effectively was achieved for both above and below ground asset groups.

Resilient supply

A resilient supply means that we are able to cope with extreme, out of the ordinary events, and this is measured by the number of people at risk from the failure of a single source asset (in supply areas of more than 25,000 consumers).

Improving resilience was one of the key outputs for the capital investment programme of AMP5. The number of customers supplied by a single source has been more than halved in five years. The final stage of the AMP5 resilience programme in 2014/15 resulted in a reduction of 15,484 customers at risk to 296,145 by combining the South East Trunk Mains scheme with the AMP5 Egford Treatment Works nitrates blending scheme, and by extending some of the reservoir bypass facilities. It is our aim to reduce this further and plans for a resilience scheme to support our southern supply area are currently being scoped for AMP6.



Sufficient supply

An unrestricted water supply is hugely important to our customers and we measure our performance by the use of supply restrictions at times of water shortage, and Ofwat's Security of Supply Index (SOSI). This measure is effectively the ratio of water available, plus regulatory headroom, to the forecasted dry weather water demand for the report year. A less than 100% score would indicate a significantly increased risk of restrictions on use for that year. In 2014/15 we achieved 100% sufficient supply with no restrictions. It has been 25 years since the last hose pipe ban.

Excellent quality

We consistently achieve exceptionally high compliance against some of the most rigorous quality standards in the world.

Safe drinking water

Our primary aim is to meet our customers' expectation for clean and clear water and to meet the stringent regulatory standards by following our Drinking Water Safety Plan ("DWSP") approach to reduce and manage any risks to water quality.

STRATEGIC REPORT (continued)

This year has seen the conclusion of some major work programmes at reservoirs and treatment works, including refurbishment of Barrow No 3 raw water reservoir, installation of UV disinfection equipment at five treatment works, all of which are now operational, and water treatment improvement schemes at Egford and Sherborne.

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

The standard on the level of lead in the water supply was tightened in December 2013 from 25 to 10 micrograms/litre. The table below demonstrates the impact of this on compliance in AMP5. The difference in performance from 99.95% to 99.92% in 2014 was caused by a single failure against the lead standard. Our random compliance sampling at customers' properties also identified a nickel failure due to a poor quality chrome plated tap at a property. This failure reduced our compliance figure from 99.94%.

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

In 2014, coliforms non-compliance at treatment works was zero, while two compliance samples out of the 8,261 taken at the outlet of Service Reservoirs were found to contain coliforms. This equates to a non-compliance of 0.02%.

Replacement of 30.2km of the distribution mains network during the year that was in poor condition, resulting in a total replacement of 237.7km of distribution mains for this AMP5 period.

No Enforcements Orders were served in this period associated with bacteriological quality at treatment works. However, the DWI initiated an order against the Company associated with issues around compliance with the Information Direction 2014 in relation to the burst at Kingswood in September 2014 and this has now reached a satisfactory conclusion.

Water is good to drink

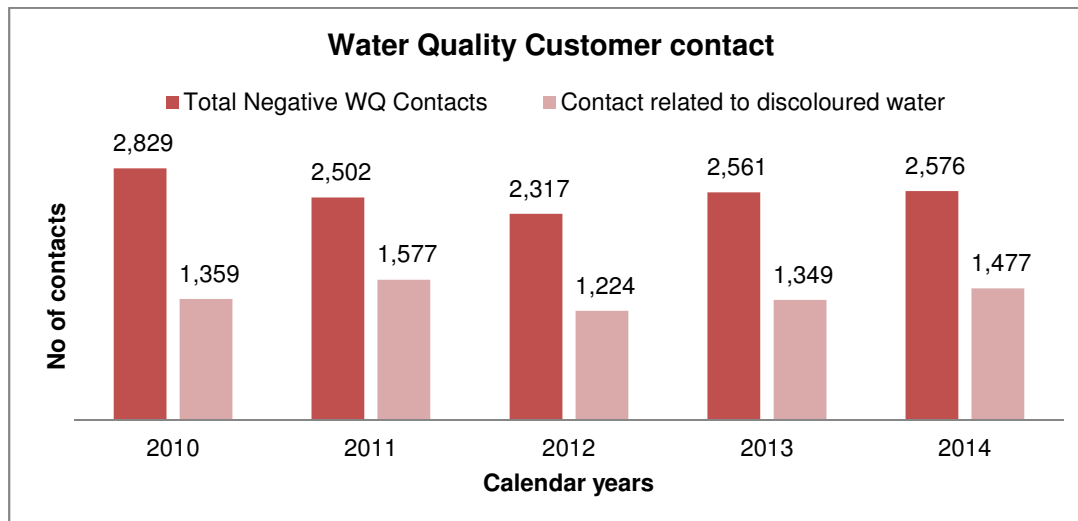
As well as meeting stringent standards, it's important that our customers consider our water is good to drink. We measure our performance by the number of negative customer contacts about the quality of water our customers receive.

Negative Water Quality Contacts

This measure relates to the number of customer contacts we receive each calendar year about taste, odour and appearance, and discoloured water complaints. It is consistent with our reporting to the DWI in that it excludes contacts associated with reportable events.

From a supply population of 1,153,826 there were 2,576 negative water and 1,477 discoloured water contacts during 2014. This equates to a rate of 1.28 contacts per thousand population, which is below the Reference Level of 1.62 contacts per 1,000 population.

STRATEGIC REPORT (continued)



The increase in negative water quality customer contacts has been mainly due to the impact of our increased renovations and rehabilitation work which sometimes results in discoloured water for a short period of time. Any work on our network is preceded by a risk assessment so that we identify any likely adverse effect, schedule the work to minimise it and issue advance notices to customers to warn them. In many instances, customers are totally unaware of work being carried out in their vicinity. We also undertake regular maintenance or flushing of our network to improve water quality.

We flushed 788km of pipes, benefiting more than 88,100 properties.

Case study

One of the most challenging parts of Bristol Water's £22m city trunk main renovation scheme was the 6km section between Bedminster and Bristol Bridge, which involved working along congested roads and highly populated side streets.

"I just wanted to say how impressed I've been with the guys working on the new water pipe on Stackpool Road. The works are currently outside my house and I'm 7 months pregnant and have a toddler. The guys working out there have been so friendly and helpful, updating me on progress and say they'll help if they can in any way. They've made the slight inconvenience of having the road closed (which we'd had plenty of notice was going to happen) not seem like much of an inconvenience. Thanks again."

Liz Newton - Via Email

Environmentally sustainable

We aim to deliver for the environment as well as for our customers and other stakeholders. This leads us to 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.

Efficient use of resources by the Company

Leakage

There are multiple benefits to managing leakage effectively including reducing the risk of having to impose water restrictions if our area experiences sustained periods of dry weather, reducing our impact on the environment by reducing the amount of water we need to abstract and reducing disruption to customers when making repairs. For AMP5, leakage targets have been set by Ofwat at a level where the overall value of the water lost is balanced against the costs of increased leakage control activity.

STRATEGIC REPORT (continued)

This year we have continued to outperform against stringent regulatory targets, despite an increase in leakage levels during a cold spell in February. Our continued outperformance is driven by our strong commitment to drive leakage down using our experienced repair and detection teams and our investment programme to maintain the integrity of our network. Our plans for AMP6 will continue to see us aiming to reduce leakage levels and increase the efforts on a number of leakage reduction initiatives.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Leakage - million litres of water per day (Ml/d)	53	50	43	42	44	45
Ofwat target	54	52	51	50	49	49

Pumping Efficiency

Pumping water is energy intensive so we have been working to improve pumping plant efficiency, starting with detailed measurement of all pump units with greater than 40kW demand (covering 85% of our total power consumption). The estimated average pump efficiency for 2014/15 showed a slight improvement on the previous year. We are now reviewing performance data so we can focus our investment programme to replace less efficient units.

Efficient use of water by customers

We encourage our customers to be more efficient in the way they use water by increasing the number of customers who are billed based on their actual consumption of water. We measure this by meter penetration expressed as a percentage of total number of customers. We also help our customers save water by providing water saving fittings, advice to reduce water consumption, and carrying out water efficiency audits for business customers.

Household meter penetration for 2014/15 is 46%, up from 42% in 2013/14. We continued to see lower than expected numbers of properties eligible for metering on the change of occupier (large garden) metering programme but, with an increase in the number of surveyors, we installed almost 500 more meters requested by the customers than forecast for 2014/15. In our AMP6 Business Plan we propose to introduce an extended programme of change of occupier metering, with the aim to increase household meter penetration to 66% by 2020 as this is proven to reduce household water consumption.

Average water consumption per customer per day (per capita consumption "PCC") for 2014/15 was 143 litres per person per day - 2 litres below the target figure for 2014/15 of 145 litres used in our PR09 Business Plan.

Household meter penetration for 2014/15 is 46%, up from 42% in 2013/14.

Sustainable environmental impact

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

Total carbon emissions

Our carbon footprint has increased slightly from last year's figure due to an increase in the carbon footprint of each kWh of electrical energy (known as the "grid average"). The UK national grid average increased by 11% in 2014/15 but, due to our energy efficiency programme, our carbon footprint increased by less than this amount, with an increase of 7% to 44,931 tonnes. In terms of Kg/person in our supply area, this equates to 38.5 kg CO₂ /person in 2014/15.

STRATEGIC REPORT (continued)

We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint.

Electrical energy consumption down 2%

78,164 MWh 2014/15 compared with 79,751 MWh 2013/14

Our new energy efficiency programme has improved management of water sources and pumping. **Water Efficiency** measures have saved 115,000 kg CO₂ due mainly to our promotional activities to help customers save water, which reduced usage by 260 million litres.

Total annual quantity of emissions (in tonnes of CO₂ equivalent) resulting from the combustion of fuel and the operation of any facility where we burn diesel or heating oil (direct scope 1 emissions) was 1,616 tonnes.

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

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

Renewable energy: Our Purton solar photovoltaic system has quadrupled in size to 1.1 Megawatts since October 2014 when it was commissioned. This system produced 454,878 kWh of electricity in 2014/15 resulting in a carbon saving was over 244,000 kg CO₂.

Raw Water Quality of Sources

Many factors can affect the raw water quality of some of our sources and we have a new catchment manager in post to help address the deteriorating status due to the presence of nutrients, sediment and pesticides. These sources are in protected areas designated as drinking water protection areas, and the sources do not currently meet all the requirements of the Water Framework Directive. As a result, they are included in the National Environment Programme for investigation and, in several cases, intervention action to create protection for the sites. Other initiatives we are investing in include an Ecosystems Services pilot under way with Defra and other partners, and Mendip Lakes partnership.

Biodiversity Index ("BI")

This is a new approach to protecting the environment that involves measuring the value and benefit of our own sites and using the Biodiversity Index to quantify the impact and benefit of our actions on the broader environment. Last year saw the new method put into practice with formal surveys of all key sites resulting in this first BI figure of 17,596.25. This calculation is the first of its kind to be generated and is therefore incomparable, but can be used to measure how we are performing in terms of habitat protection and enhancement.

An example of the Biodiversity Index in practice was demonstrated by the construction of Millmarsh Reservoir in Somerset on a greenfield site. Prior to construction it was a poor quality, intensely farmed area of grassland. From the outset it was contractor Kier's intention to make a positive environmental impact on the site, which was supported by Bristol Water.

The Biodiversity Index methodology was used to calculate a pre reservoir score (5.38) and a post reservoir score (13.42). All the improvements at the site made an overall improvement of 8.04 to the Company BI.

STRATEGIC REPORT (continued)

Waste disposal compliance

We are 99% compliant for the second year running as a result of our processes and embedded good practice in recycling metal, plastic, wood, paper, batteries and all the other waste expected from a large business. Our most significant source of waste is excavated material from road works and we now use "no dig" technologies where possible. We also recycle any polyethylene pipe offcuts generated when we lay new mains. Never complacent, we continue to tidy up our act where possible - structured risk assessments of all sites have been completed and an investment programme is proposed for mitigating key risks.

More information on the initiatives during the financial year can be found in the Corporate Responsibility Report on pages 37 and 38.

Responsive to customers

We want to meet our customer's expectations by providing outstanding water services in a sustainable and affordable way.

Affordable Bills

Some customers find it hard to pay their household bills, including their water charges. We monitor the percentage of our household customers which we classify as experiencing 'water poverty' (those who spend more than 2% of their net income on paying their water charges). In 2014/15 this figure was 2.1%, unchanged since 2013/14. We offer advice, assistance schemes and capped tariffs, known as 'Social' tariffs, which 9532 customers currently receive. We will continue to focus our efforts on increasing customers' awareness of these schemes and working in partnership with debt advice organisations, charities, housing associations and local councils to support our customers who are struggling to pay their water bills.

Number of customers supported on social tariffs rose nearly a quarter to 9,532.

Satisfied customers

We assess whether our customers are satisfied using three indicators:

- Ofwat's Service Incentive Mechanism (SIM), measuring the household customer experience.
- Customers' assessment of whether we provide value for money, measured through our monthly consumer experience surveys.
- Customer satisfaction, measured through our annual tracking survey of household consumers.

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

This year was an opportunity for Ofwat to test a new methodology for the SIM, which has now come into effect. Our SIM score in 2014/15 was 81.3; our industry ranking will be known later in July but we have been in the top five for the last five years. The levels of written complaints received have again fallen since last year; they have dropped by over 8% since last year.

In addition to the customer experience measures used by Ofwat, we survey customers every month using the same independent research agency that Ofwat uses to get feedback and to obtain a consumer rating of the value for money which we provide. In 2014/15 73% of consumers in these surveys rated our service as providing good value for money, a 3% increase on last year.

STRATEGIC REPORT (continued)

Through a second independent consumer research agency, we continued our annual tracking survey of 500 household consumers, selected at random from across our supply region to find out how they rate our service. In April 2015 69.4% of respondents rated our service as excellent or good, compared to 93% the year before. This drop is largely due to a larger proportion of people responding neutrally rather than positively or negatively to this question. The percentage of people who responded neutrally increased from 4% to 25% and those who gave a negative response increased slightly from 3% to 6%. Rebuilding satisfaction levels is a priority for our business and we are introducing new customer service initiatives to achieve this.

Our SIM score in 2014/15 was 81.3; our industry ranking will be known later in July. The levels of written complaints received have again fallen since last year; they have dropped by over 8% since last year.

In 2014/15 73% of consumers in these surveys rated our service as providing good value for money, a 3% increase on last year.

In 2014 we established an internal consumer experience steering group to identify and drive continued improvement in our customer service. We are currently reviewing our customer feedback mechanisms, with a view to obtaining greater insight into the views of our customers, enabling us to identify further aspects of our service where we need to improve or deliver enhancements.

Easy to contact

We provide a range of channels to make it easy for customers to contact us but telephone is still the preferred and primary method. Our call centre is local, we do not use automated systems to categorise or route calls and customers come straight through to us rather than having to navigate menus or options.

In 2014/15, 95.2% of consumers surveyed considered that it was easy to contact us by phone. For comparison, in 2013/14 the figure was 96.2% of consumers and this slight drop in performance is due to the significantly increased call volumes during the large operational incidents at Burnham on Sea and Kingswood. Overall levels of calls received have increased by 9% since last year.

In 2015/16 we will be focusing on implementing new ways of keeping customers informed during operational incidents, in particular making use of Twitter, text messaging and outbound calling, to prevent the need for customers to contact us. We will also be introducing web chat for customers to discuss any issues or queries they may have.

Case study

Bristol Water recently renovated 20km of trunk main between Shipton Moyne and Tolldown in South Gloucestershire. The two-year project involved replacing an 80-year-old iron main with new plastic pipe and making reconnections to hundreds of branch and service networks.

"I'm a parish councillor and I got involved because of the potential impact the Bristol Water scheme could have on the local roads, countryside and local community. From the start we were given really good information, always timely, and, most importantly, they listened to us. The guys on site were also helpful, very knowledgeable and happy to talk to you about the work. Considering how difficult things could have been, it's actually been a delight."

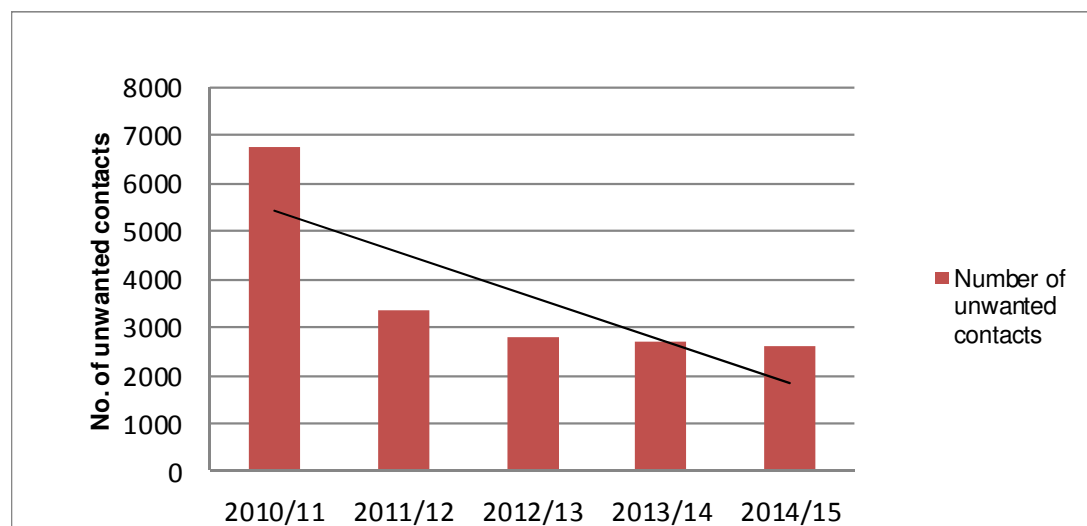
John Buckley, Councillor, Luckington and Alderton Parish Council

STRATEGIC REPORT (continued)

Bills are accurate and easy to understand

Our customers want bills that are accurate, clearly laid out and easy to understand so we monitor this by measuring the number of 'unwanted' billing contacts we receive, which was 2,612 in 2014/15. Unwanted is the term used by Ofwat in its quantitative SIM measures for calls which the customer would prefer not to make, in the sense that they are dissatisfied because they are experiencing a problem or concern, are making a repeat or chase call, or want to complain.

The following graph shows our performance in respect of billing related contacts for the current and last four financial years.



In response to requests from our customers, a new e-billing service was introduced this year, providing facilities for customers to view their bills online and to opt for paper-free billing. Over 3,000 customers have signed up for this service so far.

Some more initiatives regarding this area are explained in more detail in the Corporate Responsibility Report on pages 35 and 36.

A report of the forensic investigation of the Kingswood incident

As you will have read in the Chairman's Welcome and elsewhere in this report, the incident in Kingswood was a major event for Bristol Water and for the residents of Kingswood.

More than 46,000 properties in the local water network were affected by supply and pressure problems, and nearly 30,000 properties were without water for an average of 37 hours. Flooding caused major damage to eight homes and the residents were rehomed for six months while their houses were restored. By spring 2015 life for the people of Fisher Road had returned to normal, but they will never forget the day that their quiet street became the centre of a media storm.

There had been no warning signs that this main, which was laid in 1968, was going to rupture with such devastating consequences so we commissioned Imperial College London to carry out a detailed forensic investigation to try and find the cause of the failure of this 22mm thick section of cast iron main.

Detailed information was gathered about the pipe failure, soil characteristics, environmental factors and installation and operational conditions, together with an examination of preserved pipe pieces, fracture surface and crack geometry. Testing and analysis was carried out in the lab and the latest in computer modelling was used to replicate the real life situation by the world-leading team of infrastructure engineers at Imperial College London.

The investigation has so far concluded that, following a record dry spell, the main ruptured as a result of stress caused by soil shrinking around the pipe. This put strain on the main where it was pivoting on a sewer, causing it to fracture along the section under pressure.

STRATEGIC REPORT (continued)

Whilst these specific conditions cannot be influenced, we take a number of measures to reduce the likelihood and impact of a similar event. For example we are monitoring the dynamic hydraulic conditions in water mains and are proactively flushing the mains to provide alternative routes to supply water to affected areas.

Bursts like Fisher Road are thankfully very rare and Bristol Water would like to thank everyone who helped us and the local community deal with this emergency.

Case study

"We'd been out at a family birthday party and when we approached our road we were told that a main had burst outside our house. We couldn't go near, so we handed the keys to the fire service so they could rescue our dogs. The flooding was terrible, it was devastating to lose all our possessions, but Bristol Water has been really good, both at the time at the burst and looking after us while our home was being repaired."

Fred Smith

Best people right culture

We know that to continue being a successful water company we need to employ the best people and maintain the right culture within the business.

Safe working practices

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

A number of initiatives have been launched throughout the year by the Health and Safety Action Group, made up of a number of representatives across the business, including a well-being week and Hazard Reporting Month. Our aim is to reduce reportable accidents to the HSE to a minimum, which means applying a continuous improvement process across the whole Company so there is total commitment from all employees and contractors to achieving this aim.

In 2014, one accident was reportable under the RIDDOR regulations to the HSE. This accident was an over-seven day injury. Overall this was a positive year with reports 70% lower than our three-year average.

Bristol Water embarked on an internal behavioural safety campaign through the latter half of 2014 to have a positive impact on our accident performance numbers. This may continue into the future as the campaign progresses into 2015 and beyond.

Skilled and motivated workforce

In order to deliver an outstanding service, our workforce must be skilled and motivated. Talented people are the foundation of our success and we do all we can to care for our staff, to motivate them and develop their many and varied skills. To support this, we have set up a new training matrix which we can use to measure our success in this area from 2015/16.

Bristol Water is an inclusive employer and promotes equality and inclusion from recruitment and selection, through training and development, to promotion, reward, recognition and retirement. Performance, future objectives, training and development needs are discussed and agreed with employees in our annual appraisal process.

STRATEGIC REPORT (continued)

The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a major role in maintaining it. To encourage employee involvement, we carry out employee engagement surveys every 18 months - the next results are due in the autumn of 2015.

Bristol Water is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled employees. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Sustainable business

Provision of water is a long-term business requiring consistency and sustainability and we need to spend customers' and investors' money efficiently to achieve this. In doing so, we retain investor confidence and maintain returns in line with the expectations of the financial markets while delivering improved services and keeping water bills affordable.

Driving efficiency is an important role for the management team and in 2014/15 our business efficiency programme called Project Channel has instigated a major restructure that will result in a leaner operating model that is better targeted to meet the demands of the modern water sector.

We consider that the longevity of our business can only be maintained if we remain a highly reputable company with our customers, regulators and other key stakeholders to maintain their confidence in our ability to deliver for them.

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

Investor confidence

Through effective financial management and open communication, we maintain investor confidence in order that we can secure funds to invest in the business to deliver our long-term strategy. We have maintained better than the minimum investment grade rating required under our licence. Our rating with Moody's is Baa1 with negative outlook. The negative outlook reflects the uncertainty relating to the redetermination for PR14.

Fair return to investors

Availability of the required funding is paramount for the sustainability of a business, and we need to demonstrate a fair return to investors to attract the investment we need. After an adverse post tax return of 3.9% in 2013/14 (4.9% Final Determination target), the 2014/15 return was better at 5.4% (4.9% Final Determination target). Also our overall HCA (Historical Cost Accounting) returns for PR09 have been slightly better than our Final Price Determination.

Highly reputable

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

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

In the annual survey conducted in April 2015, 67% of respondents felt that our reputation was good or very good, compared with 83% the year before.

STRATEGIC REPORT (continued)

In order to obtain the views of other stakeholders we annually survey a randomly selected group of people including MPs, local authority leaders, large business users, regulators and a range of partner organisations. They are asked their views on how well we perform in a number of key areas.

For 2014/15 31 respondents asked to rate our overall CSR performance scored us at 55% compared with 53% based on 49 stakeholder interviews in 2013/14. Over 80% of stakeholders regard Bristol Water as a good company overall.

Once again this year, stakeholders expressed widespread satisfaction with the quality of the water provided, and the reliability of supply – and they emphasised the importance of focussing on delivering this basic task.

Many spoke of the possible impact of the CMA process, and the current uncertainty for future plans. Although the detail is not always understood, many welcome the recent downward pressure on water bills balanced with the very necessary investment in infrastructure.

Many also mentioned the ‘staggering amount’ spent on upgrading the mains over the last 12 months, especially in the central Bristol area. They largely accept the disruption caused, and some council stakeholders spoke highly of the efficiency with which the works have been carried out with comments including ‘always professional’ and ‘such a good working relationship with Bristol Water’. Others had suggestions of how the impact on the general public could be reduced even further, which we will feedback to the business to help improve our service.

Case study

Bristol Water provided mains laying services for Balfour Beatty’s development at Mackintosh Close, Coleford, Somerset. We work closely with developers to support them in their delivery of essential new housing stock in our supply area.

“While working on the above social housing development, we encountered a number of challenges with the scheme which put the project programme at risk. As part of the programme recovery, we sought support from Bristol Water to arrange for the incoming water main to be connected, flushed, cleansed and some 28 water meters to be installed in a very short period of time. The senior management of Bristol Water were quick to engage and very proactive in assisting us in this request by arranging both internal and supply chain resources at short notice to execute the work resulting in Balfour Beatty being able to mitigate their programme by some 3 weeks.”

Chris Bartlett, Balfour Beatty Operations Director (Construction)

STRATEGIC REPORT (continued)

FINANCIAL KPIs

For the year ended 31 March 2015

	2015	2014
	£m	£m
Turnover	132.8	123.9
EBITDA	69.6	66.5
Operating profit	32.7	27.9
Profit before tax	21.4	14.5
Profit after tax	13.8	17.1
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	296.6	279.8
Regulatory Capital Value (RCV)	411.7	411.3
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	72%	68%
Capital investment before grants and contributions	59.3	76.0

Turnover of £132.8m, reflecting a 7.2% increase, includes the 6.5% price increase allowed by Ofwat in respect of inflation (2.7%) and the 'K' factor (3.8%), and an increase in demand from customers. The price increase allowed by Ofwat, is needed because of the investment we are undertaking to improve and protect the water supply. For the AMP5 period 2010-15; we have spent £288.9m on these improvement works.

EBITDA increased by £3.1m reflecting an increase of £8.9m in turnover as offset by an increase of £5.8m in operating costs. Increase in operating costs predominantly relates to costs of the ongoing efficiency programme as referred to on page 4, costs in relation to the regulatory process for finalisation of the Business Plan 2015-20, and inflationary and above inflation price increases.

Operating profit increased by £4.8m reflecting the £3.1m increase in EBITDA and a £1.7m decrease in depreciation cost. Net decrease in depreciation relates to a £2.2m increase in depreciation due to the ongoing capital expenditure and a £3.9m reduction in depreciation charge on infrastructure assets.

Profit after tax decreased by £3.3m to £13.8m, the reduction is driven by an overall tax charge of £7.6m in the current year compared to a credit of £2.6m last year. The tax credit in the last year arose predominantly due to the impact of a reduction in future corporation tax rates and a favourable impact of tax discounting on the opening deferred tax liability. The effective tax rate was 35% (2013/14: 19%). The principal reason for the effective tax rate being higher than the standard corporation tax rate of 21% (2013/14: 23%) is the effect of discounting on the deferred tax movements during the year.

Net debt

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

Net debt excluding the 8.75% irredeemable cumulative preference shares was £296.6m (2013/14: £279.8m), representing approximately 72% (2013/14: 68%) of the RCV of £411.7m (2013/14: £411.3m).

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

Our practice is to maintain a debt portfolio with mainly long dated maturities reflecting the long-term nature of the Company's asset base.

STRATEGIC REPORT (continued)

Cash, including deposits with banks, was £10.5m (2013/14: £12.7m), the significant cashflows during the year were:

- cash inflow of £68.5m from operations,
- net cash outflow of £56.6m for capital expenditure,
- new borrowings of £60.6m,
- repayment of £50.3m debt,
- base level dividend of £10.3m,
- inter-company loan interest related dividend of £3.2m,
- net interest payments of £8.3m, and
- corporation tax payment of £2.6m.

Capital programme

During the year, we invested £59.3m (2013/14: £76.0m) in capital expenditure before contributions, marking a successful completion of the committed AMP5 capital programme.

This brings the total investment in AMP5 to £288.9m which is our record highest investment in any AMP period to date and demonstrates our commitment to invest in our assets to maintain or enhance service to our customers.

We have now delivered the AMP5 capital programme. Capital investment during the year included the following key projects:

- Renovation of 26.3km of trunk mains which was part of the £25m AMP5 scheme to renovate trunk mains network through large parts of Bristol, North Somerset and the northern parts of the supply area.
- Completion of the major refurbishment of Barrow No 3 raw water reservoir involving further grouting of the embankment and lining of the outlet pipe to maintain structural integrity.
- Replacement of 30.2km of the distribution mains network that was in poor condition, resulting in a total replacement of 237.7km of distribution mains during the AMP5 period.
- The programme to enhance the treatment process at five of our treatment works by installation of ultra-violet disinfection equipment. The construction of this enhanced process is now complete at our Stowey, Littleton, Purton, Shipton Moyne and Cheddar treatment works sites and all the sites are operational.
- Finalisation of the construction work on the water treatment improvement schemes at Egford and Sherborne.
- Completion of the programme of refurbishment and pump replacement at our large pumping stations; Purton, Blagdon and Victoria, and smaller sites; Almondsbury and Banwell Springs.
- Planning and public consultation relating to building a new 9,000 million litres Cheddar 2 reservoir in Somerset. The planning application was submitted on programme in December 2013 and consent was granted in June 2014.

STRATEGIC REPORT (continued)

REGULATORY PERIOD 2010-15 SUMMARY

The Company agreed to deliver the following key outputs during the regulatory period 2010-15:

- Installation of enhanced water treatment at seven treatment works to reduce risks from cryptosporidium, lead and nitrates contamination. This included enhancement of the treatment process at five treatment works by installation of ultra-violet disinfection equipment, and work on the water treatment improvement schemes at Egford and Sherborne.
- 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 58.6km of trunk mains to improve water quality in respect of iron and discoloured water.
- Construction of a major resilience scheme for central Bristol.
- Maintenance of stable serviceability for infrastructure and non-infrastructure assets.
- A reducing leakage target (to 49 MI/d by 2015).
- Preparatory work for Cheddar 2 reservoir.
- Replacement of 237.5km of mains over the AMP – an average of 47.5 km per annum.

In AMP5 we achieved the above required outputs as follows:

- All the seven enhanced water treatment schemes are complete.
- Installation of surface aeration at both the surface water treatment works to reduce the risk of Trihalomethane formations caused by zebra mussels has been completed.
- Catchment management schemes have progressed as planned for AMP5.
- A total of 58.2km of trunk mains has been lined.
- Construction of the major resilience scheme for central Bristol has been completed.
- We have continued to maintain stable serviceability for both infrastructure and non-infrastructure assets.
- We have again beaten one of our lowest ever annual leakage target of 49 MI/d for 2014/15 with our achieved leakage level of 45 MI/d. Our leakage levels continue to be amongst the best in the UK.
- Preparatory Work for Cheddar 2 reservoir culminated in planning consent being granted in June 2014.
- A total of 237.7km of mains have been replaced in the AMP5 period.

STRATEGIC REPORT (continued)

DIVIDENDS

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

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

Total base level dividend and dividend in respect of the inter-company loans paid during the year were £10.3m (2013/14: £10.1m) and £3.2m (2013/14: £3.1m) respectively. 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 (2013/14: £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 our membership in the Water Companies' Pension Scheme ("WCPS"), which provides defined benefits based on final pensionable pay. We have a separate section within WCPS for the regulated water business; the section was closed to new employees some years ago. Since that closure all new employees are offered membership in a stakeholder pension scheme.

The latest triennial valuation of the pension scheme was completed as at 31 March 2014. The total deficit as at 31 March 2014 measured on a long-term scheme funding basis was £2.8m. This represented a funding level of 98.4%. As a result of the Trustee's advice we will:

- continue to pay an annual deficit contribution of £0.4m from April 2015 to March 2020 increasing each year in line with the Retail Prices Index (RPI), and
- change the regular contributions for the main sub-section from 36.7% to 33.9% and for the alternative benefits sub-section from 24.9% to 27% from April 2015, of the relevant payroll costs.

The actuarial valuation under the Financial Reporting Standard 17 (FRS 17) at 31 March shows a pension surplus of £14.1m which has been recognised in the financial statements. The funding deficit of £2.8m and the accounting surplus of £14.1m are not comparable because:

- the funding deficit is based on a position at 31 March 2014 and the accounting surplus is based on a position at 31 March 2015, and
- the approach for valuation of scheme liabilities is different between the two valuation methods.

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

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY

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

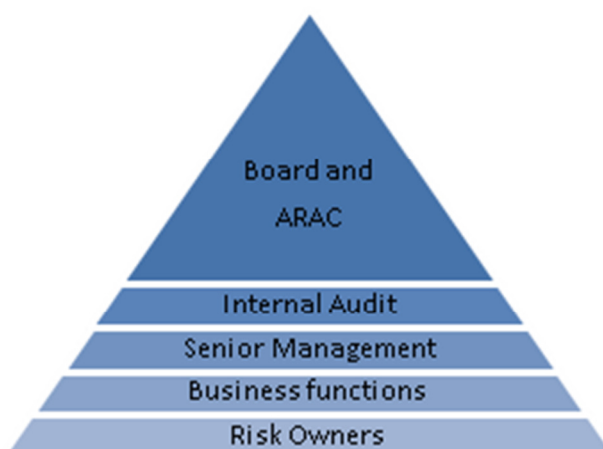
We recognise the importance and benefits of timely identification, assessment and management of risks that may impact our ability to achieve our strategic objectives. In this respect, we are committed to prudent risk management practices within the context of an Enterprise Risk Management (“ERM”) framework.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

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

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

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

- **Board of Directors and Audit and Risk Assurance Committee (“ARAC”)** have overall governance responsibility for overseeing management's implementation of the risk management policy.
- **Internal Audit** is responsible for reviewing management's practices to manage risk and reporting to the ARAC.
- **Senior Management** is responsible for the implementation of the ERM framework to all applicable activities and reporting to the ARAC.
- **Business Units** are responsible for the application of a risk management framework to identify, monitor and report risk.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.



STRATEGIC REPORT (continued)

Risk management processes

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

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

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

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

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

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

STRATEGIC REPORT (continued)

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

Risk and description	Impact	Monitoring and Mitigation
Price Review risk is a regulatory risk concerning an adverse decision by the CMA for our appeal of Ofwat's Final Determination for our Business Plan for AMP6.	An adverse CMA decision for price or capital expenditure plans could impact our ability to deliver service levels which meet customer expectations.	<p>We have dedicated significant internal resource, together with external consultants to support our case throughout the CMA appeal process in order to secure a positive outcome.</p> <p>We have also explored different options to mitigate the impact of in the event of an adverse determination.</p>
<p>Funding and Investor confidence risks are strategic risks concerning the ability to access timely and cost effective debt or equity to support our capital expenditure programme and replace maturing debt.</p> <p>Current challenges include the outcome from the PR14 appeal process on our ability to obtain future financing.</p>	Inability to access cost effective debt or equity could result in higher interest costs, lower cash flow or liquidity difficulties.	<p>We maintain good relationships with our equity and debt investors through regular performance reporting and communication.</p> <p>We closely manage our funding and debt servicing, maintaining sufficient liquidity to meet 12 months' funding requirements.</p>
Water Resource risks are strategic risks, which include planning for increased population and demand for water, together with climate change and extremes in weather.	Inability to maintain water supplies by underestimating the demand for water in comparison to the resource available.	<p>We maintain Water Resource Plans to manage long term water resource risk, allowing us to develop risk resilience. We encourage customer metering promote efficient use of water by customers and we actively manage leakage to control wastage from our system.</p> <p>We maintain business continuity plans and ongoing monitoring of resource levels to manage residual exposures.</p>
Change in regulatory regime is the regulatory risk of changes in the Regulatory Regime adversely affecting us, including the introduction of Retail competition, Upstream separation and Abstraction reform.	Favourable changes can create new opportunities for greater efficiencies, while unfavourable changes can reduce efficiency, increase costs and have harmful effects on employee and customer relations. The abstraction reform may also affect the Water Resource risk.	<p>We monitor and maintain active dialogue with policy makers to identify opportunities and respond to any legislative changes to minimise the impact.</p> <p>In respect of Retail Competition, we are working with our joint billing partner, Wessex Water, to understand and minimise additional costs and disruption.</p>
Expense management risk is the financial risk concerning unexpected non-recoverable increases in costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	We mitigate this risk by following policies, procurement strategies and efficiency initiatives.

STRATEGIC REPORT (continued)

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

STRATEGIC REPORT (continued)

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

Risk and description	Impact	Monitoring and Mitigation
<p>Human resources retention risk is an operational risk concerning the ability to motivate, attract and retain staff.</p> <p>Current challenges include the restructuring around introducing the new operating model.</p>	<p>Adequately trained and motivated staff are fundamental throughout the business in improving the customer experience both when incidents arise and through working towards our corporate aims.</p> <p>There may be a short term reduction in performance during the restructuring process as a result of staff uncertainties. Performance may be affected by the loss of key staff knowledge and talent as a result of the changes in the operating model.</p>	<p>We reduce uncertainty during periods of change by consulting with staff on the restructuring and other key issues. Knowledge and talent risks are managed within the operational model project.</p> <p>We publish external compliments received on the internal website and we encourage staff involvement through an incentivised suggestion scheme. We use mobile working tools to reduce paperwork and improve communications for offsite workers.</p> <p>We are nearing completion of the phased refurbishment of Head Office, which will centralise and improve working conditions for all office based staff.</p>

STRATEGIC REPORT (continued)

OUTLOOK

Following our rejection of Ofwat's Final Determination, the Business Plan in respect of the regulatory period 2015-20 is under review by the CMA. Final Determination from CMA is expected in September 2015; however 2015/16 is binding on the Company per Ofwat's Final Determination. The main drivers of 2015/16 profitability are expected to be:

- revenue – an average 16% reduction in charges to customers in line with Ofwat's Final Determination;
- specific measures in response to reduction in the 2015/16 revenue – certain one-off measures planned by the Company to reduce operating and capital expenditure in response to a significant reduction in the revenue. Some of these measures may have long-term adverse consequences if sustained, they will be reviewed following the redetermination;
- operational efficiencies – further cost reductions from efficiencies are expected to be achieved but they may partially be offset by the cost of new obligations and inflation;
- inflation or deflation – operating costs, capital expenditure and the Company's £171.3m index-linked debt are subject to inflation based on RPI at various points in the year. Potential adverse impacts of high inflation or deflation are mitigated by the linking of the majority of revenues through the previous year's November RPI;
- energy costs – energy costs are significant for the Company; spot power costs are constantly changing in line with crude oil and gas markets. Total energy costs during the year increased by 3% 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;
- socio economic conditions – impact of movements in socio economic conditions on collections from our customers;
- weather – severe weather patterns can affect the profitability in various different ways. Measured income can be affected by changes in volume consumption, chemical and power costs can be affected by raw water quality and availability of different water sources; and
- network maintenance costs can be affected by mains burst activity.

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

Luis García
Chief Executive Officer
24 July 2015

CORPORATE RESPONSIBILITY REPORT

Our reputation is hugely important to us and we understand that our activities can have an impact on the communities that we serve and the environment that we steward. We seek to minimise this by delivering services responsibly and sustainably whilst managing the social, environmental and economic impacts of supplying quality water for our customers now, and for the future.

This report provides an overview of the work we have done to embrace responsibility for our corporate actions and to encourage a positive impact on the environment and stakeholders including customers, employees, investors, communities, and others.

Customers

Our customers are our priority and the quality of service they receive is central to everything we do.

Customer Service

Our performance on customer service has had a challenging year due to the two mains bursts which were the largest scale interruption events in the recorded history of Bristol Water. We are always striving to improve and examples of this are provided below.

The two biggest incidents were at Burnham on Sea in May, where nearly 13,000 properties went without a water supply for an average of 10 hours, and in Kingswood in September, when nearly 30,000 properties went without a water supply for an average of 37 hours. Despite our regular customer-facing staffing levels being virtually overwhelmed, we were able to answer the large volume of enquiries and give our customers a human interface by opening our telephone helpline for extended hours. In the Kingswood incident we also used an external call centre that we have on standby for emergencies.

Following both incidents, surveys were carried out to gauge affected customers perceptions of how we performed during each incident. The findings told us that the vast majority of customers were satisfied with how we handled both incidents. In Burnham-on-Sea four out of five customers who contacted us were satisfied with the ease of contacting us and the helpfulness, attitude, knowledge and professionalism of our staff. The main area of improvement needed in both incidents was better communication, specifically providing more and better quality information directly to customers. In Burnham-on-Sea this was 24% of customers surveyed and in Kingswood this was 22%.

As a result of this research, we have identified and implemented new ways to directly communicate to customers such as the use of Twitter. We have additional projects in place to expand this communication further. During an incident we always strive to ensure our more vulnerable customers' needs are met as a priority. We have undertaken a review of our vulnerable customer database and are working to implement identified improvements. We have also met with external agencies to help us to continue to give a thorough response in an emergency situation.

CORPORATE RESPONSIBILITY REPORT (continued)

Customer communications

On a daily basis we focus on providing the best methods of customer communication as this is an area our customers tell us is increasingly important.

- We realise the importance of keeping customers informed about planned work and its progress and we communicate in a variety of ways to maximise our reach.
- We write to all households to inform them of upcoming work in their area, we publicise and host drop-in sessions at our mobile Customer Service Unit so people can talk to us directly, and we have assigned special helpers amongst our work crews so the public can easily identify who to talk to on site. In the last five years we have sent out 187,500 letters and 97,000 Question & Answer documents to customers.
- We provide updates on our website and use the local media to warn people about road closures and traffic hot spots.
- Our customer magazine WaterTalk is distributed to every household in our supply area, providing a cost effective medium to communicate to our customers. 1.1 million WaterTalk magazines were delivered in 2014/15.

We are responding to the desire for customers to receive communication in a variety of channels. We are therefore using the website and twitter more as a platform to update our customers about emergencies and supply problems.

There were 401,045 visits to our website in 2014/15

- We have extended our operational call centre opening hours from 8am-8pm weekdays and 8am-1pm Saturday and Sunday.
- From June 2014 to February 2015 we conducted an interactive voice response survey following a customer call to our operational call centre. The result showed 95% of customers who completed the survey were satisfied that our call centre staff were knowledgeable and gave clear information about what happens next, and 97% found us easy to deal with. We have been able to use the feedback gathered to refresh training with staff in our call centre.

401,045 visits to our website in 2014/15.

1.1 million WaterTalk magazines delivered to our customers.

We have been proactive in communicating to customers about our capital projects. In the last five years we have sent out 187,500 letters and 97,000 Question & Answer documents to customers.

Support for customers

Our work to support customers struggling to pay their water bills has continued over the year with a proactive approach to customers who may potentially benefit from the social tariff and payment schemes we offer. We assess customers on an individual basis and look to tailor the package of assistance offered to their needs. The number of customers receiving assistance through these measures has increased by 27% since last year.

9,532 households are currently benefitting from our 'Restart' and 'Restart Plus' schemes and 'Assist' tariff, which help customers who are in financial difficulty get back on track with their water bill. 1,715 households are on our metered tariff WaterSure Plus, for customers who are in receipt of certain benefits and are defined by the Government as 'vulnerable' either because they have a medical condition or a large family.

£100k has been donated to debt advice agencies across our supply area to support them in providing free advice to our customers.

CORPORATE RESPONSIBILITY REPORT (continued)

Environment

With the international spotlight on Bristol as European Green Capital 2015, Bristol Water's pivotal role in sustaining a healthy environment and efficiently using resources has become as clear as the water that pours from our taps.

Providing an outstanding water service in a sustainable way means we must engage with our customers and stakeholders and focus on our environmental vision to make efficient use of resources. Our performance results are outlined on pages 16 to 19, but there's a lot more to tell.

Leaks and bursts - We have again met our lowest ever leakage target set by Ofwat with leakage levels continuing to be amongst the best in the UK. Leakage targets are set by Ofwat at a level where the overall value of the water lost is balanced out by the costs of increased leakage control activity. Over the past year we repaired around 5,000 leaks on our network distribution system, including approximately 1,000 burst water mains. In addition to the leaks repaired on our network we also identified in excess of 1,900 leaks on private customer service pipes, providing free or subsidised repair of these private leaks in more than a third of cases.

Water efficiency campaigns – Saving water is good for customers as it reduces bills, good for Bristol Water as it reduces our energy consumption, which in turn is good for the environment. This is one of the main topics we promote through our events and education programmes. 30,000 free water saving devices were given to customers at events which equals just under half a million litres of water saved each day. Our Eco School Challenge involves a water audit for the school itself, water workshops for the children and water saving devices for their homes. In 2014/15 21 primary schools took part and saved an estimated 18 million litres of water.

30,000 free water saving devices given to customers at events = just under half a million litres of water saved each day.

Our Eco School Challenge: 21 primary schools = 6,000 pupils = an estimated 18 million litres of water saved

Biodiversity and wildlife - Our commitment to protecting biodiversity can be shown through a new measure we have developed for the business, called the "Biodiversity Index". This measure, developed in collaboration with specialist consultancies, has enabled us to quantify the benefit of our sites for the broader environment - and to identify where we can make further improvements to our sites that will enable them to support a wider range of wildlife.

The common eel is now a critically endangered species with numbers having dropped by over 95% in the last 25 years. To help address this issue, we have begun projects to protect eels in the watercourses we manage and we are working with the European Sustainable Eel Group and local wildlife charities to investigate new measures that can help protect this species. One example of this is our new project "Spawn to be Wild", which enables local school pupils to care for eels in special tanks in their school, prior to releasing them into the wild. Targeted at inner-city schools as part of our commitment to Bristol as European Green Capital, this project aims to educate, engage and encourage young people to learn more about the natural environment and the role they can play in its protection.

Catchment management - in 2014 we began work on a new "payment for ecosystems services" approach for protection of our water sources. This first stage of the project, working in partnership with Defra and local stakeholders such as Avon Wildlife Trust, aims to identify how best to engage with farmers and other landholders in the catchment area of our water sources, protecting them for the long-term. This project builds on our existing successful catchment management programme for metaldehyde, a chemical used for slug control.

CORPORATE RESPONSIBILITY REPORT (continued)

Bristol 2015 European Green Capital - Since the EU Green Capital competition was first created, we have been part of Bristol's bid to win the award, and we were part of the successful bid team presenting at the EU parliament where the final decision was made. As an official supporter of this exciting programme, we have been able to give our water saving and other initiatives a Green Capital badge and contribute to a major shift in behaviour and attitudes to the environment, and help create a sustainable legacy.

Bat Cave - With the help of local experts, we have redeveloped a redundant Victorian building on one of our sites by turning it into a 'bat cave' habitat. Recent surveys identified eight different species of bats in one night and the site has become the focus for national research into the rare Nathusius's pipistrelle bat.

Employees

We need the best employees in order to achieve our goal to deliver an exceptional customer service.

Ensuring that our employees remain motivated and skilled in their roles is of paramount importance to us. In the last year, we have redesigned our appraisal process, enabling all staff to have an opportunity to review their performance and talk about development needs at least twice a year. We have also completed a comprehensive review of all the training that is required in our operational areas and updated our systems so that we know what training is expected, when it was completed and when it is next due for all roles.

We do our employee engagement surveys every three years and the next one is due towards the end of 2015. Engagement surveys are not a measure of happiness or satisfaction, they gauge employee sentiment around passion for and pride in their work, whether they believe in the vision of the organisation, and if their work is valued and their talents are well utilised. We are pleased that over the last 9 years we have seen a steady improvement, and hope that this trend continues. This year the engagement survey will be at a time of increased change as we will be over half way through our restructuring program. We will use the results to highlight areas that require additional focus to ensure a smooth transition for the workforce, the business and our customers.

Improving communication across the entire business has been a key driver this year. Ensuring the workforce feel included and informed of company, industry and market news is a proven motivator. We have redesigned our company intranet to allow all employees, including those in the field, to find out about relevant company news. The introduction of the weekly 'CEO Update' has been a particularly successful and well received introduction.

Suppliers

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

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

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

We have recently reviewed the way we work with self-lay organisations and have committed to change the structure and processes of our price and non-price terms when providing services to self-lay organisations (SLO), who are able to bid for mains laying work for new developments.

CORPORATE RESPONSIBILITY REPORT (continued)

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

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

Case study

The Bristol Port Company operates a full range of shipping, distribution and logistics services from Britain's most centrally located deep sea port. The company approached Bristol Water to help on a project to improve the pipe infrastructure and water quality.

"Thanks to Bristol Water's expertise and attention to detail this large scale maintenance project was carried out successfully, to deadline and with minimum disruption to the working life of the port. We were reassured throughout the whole process and as a result of the training provided, our own staff can now carry out the flushing programme that helps maintain the quality of the pipe work."

Sue Turner, The Bristol Port Company

Community

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

Community engagement - We increased our visibility and contact within the community dramatically this year. The events team attended a wide variety of events, from large scale county shows to community events and club talks, promoting our household water efficiency programme and informing them about the role Bristol Water plays in their lives. We estimate that we had contact with 16,000 people through our community engagement programme.

These events have also provided an opportunity for customers to ask staff questions – water meters, leaks and water use for gardens coming up most frequently. Additionally, by taking our exhibition vehicle to areas where we are carrying out major works we have been able to speak to people directly affected. All this has contributed to greater customer service.

16,000 people had contact with Bristol Water through our community engagement programme.

Partnering with the community – We have worked with a wide range of local organisations on community projects, including Avon and Somerset Police, Business in the Community, Community Service Volunteers and Bristol Neighbourhood Home Watch.

We are a corporate partner to Bristol Museums, Galleries and Archives and are a key sponsor of their educational programme. For the third year we sponsored the Festival of Nature, an event which attracts over 35,000 visitors to central Bristol over a two day period.

Fundraising – We raised nearly £10,000 for WaterAid in our Three Lakes Challenge and continue to support WaterAid's annual appeal by including a promotional leaflet in with our bills.

Two Bristol Water work teams competed in challenges to help Avon Fire and Rescue and One25 improve their service. Many other local and national charities have benefitted from staff volunteer days and fundraising at work. We also recycle any scrap metal generated through the course of our business activities and the money received from this exercise is donated to local charitable causes.

Luis García
Chief Executive Officer
24 July 2015

BOARD OF DIRECTORS

Keith Ludeman | Age 65

Non-Executive Chairman, Chairman of Nomination Committee

Mr Ludeman was appointed to the Board in July 2012. He is a non-executive director of Eversholt Rail UK limited (appointed in 2014) and Interserve plc and resigned as a non-executive director of Network Rail Limited in July 2014. He is also a director of London Transport Museum Limited, and is a former Chief Executive Officer of Go-Ahead Group plc with forty years' experience in the transport industry.

Luis García | Age 50

Chief Executive Officer, Member of Nomination Committee

Mr García was appointed to the Board in January 2009 initially as a non-executive director. He joined Agbar in 1989 and has held a number of senior positions. He was appointed Chief Executive Officer of the Company on 1 April 2009.

Mick Axtell | Age 43

Finance Director

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

Michael King | Age 50

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.

Peter McIlwraith | Age 67

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

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

Chris Curling | Age 65

Non-Executive, Chairman of Remuneration Committee, and Member of Nomination Committee and ARAC

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

Robert Davis | Age 67

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

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.

BOARD OF DIRECTORS (continued)

Tim Tutton | Age 67

Non-Executive, Member of Nomination and Remuneration Committee and ARAC

Mr Tutton is an economic consultant specialising in economic regulation, especially in the energy sector. Currently a specialist 'Communications and Utility Panel' member at the Competition and Markets Authority. His previous roles have included 'Director of Regulation' at National Grid and 'Director of UK Utility Regulation' at PricewaterhouseCoopers. Mr Tutton was appointed to the Board on 1 January 2015.

Michael Bernstein | Age 47

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.

Michael Smerdon | Age 44

Non-Executive, Member of ARAC

Mr Smerdon is the Executive Vice President and Chief Financial Officer of Capstone Infrastructure Corporation. He was formerly Managing Director of Macquarie Infrastructure and Real Assets Canada Limited. Mr Smerdon joined the Board on 5 October 2011.

Anthony Harding | Age 66

Non-Executive, Member of Nomination and Remuneration Committees

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 seven million people in several US states. He is a Chartered Engineer and was previously Managing Director of Northumbrian Water and Essex & Suffolk Water.

Hajime Ichishi | Age 40

Non-Executive

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

Note:

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

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2015.

Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 25 to 28.

The total dividend paid during the year ended 31 March 2015 was 224.8p (2013/14: 220.2p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2014/15 (2013/14: £3.3m). The Company's practice for dividends to shareholders is contained in the Strategic Report on page 28. 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 indirect holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The Articles of Association themselves may be amended by special resolution of the shareholders.

Under its Articles of Association and the Companies Acts, the Company has in issue 5,998,025 ordinary shares as disclosed in note 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.

GOING CONCERN

As detailed in the Corporate Governance Report on page 60, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

FINANCIAL RISK MANAGEMENT

Details of financial risks faced by the Company and the related mitigating factors are included in note 16 to the financial statements.

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

K Ludeman, *Chairman*
L García, *Chief Executive Officer*
M Axtell, *Finance Director*
M King, *Regulatory Director*
P McIlwraith, *Independent Non-Executive*
C Curling, *Independent Non-Executive*
R Davis, *Independent Non-Executive*
T Tutton, *Independent Non-Executive (appointed on 1 January 2015)*
M Bernstein, *Non-Executive*
M Smerdon, *Non-Executive*
J Bittan, *Non-Executive (resigned on 27 March 2015)*
A Harding, *Non-Executive*
P Bourdillon, *Non-Executive (resigned on 27 March 2015)*
H Ichishi, *Non-Executive*

Messrs Ludeman, McIlwraith, Curling, Bernstein and Smerdon will offer themselves for re-election and Mr Tutton will offer himself for election.

Service contracts

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

Other interests

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

The interests in shares and other contracts of Messrs Bernstein, Smerdon, and Bittan (resigned on 27 March 2015) with other companies within the Capstone group are not disclosed within this report.

The interests in shares and other contracts of Messrs García, Bourdillon (resigned on 27 March 2015), and Harding with other companies within the Agbar or Suez groups are not disclosed within this report.

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

ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The details of ultimate parent company and controlling party, and the smallest and largest group in which this company is consolidated, are provided in note 26 to the financial statements.

RESEARCH AND DEVELOPMENT

The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2013/14: £0.1m).

FINANCIAL INSTRUMENTS

The details of the financial instruments are provided in note 17 to the financial statements.

DIRECTORS' REPORT (continued)

INSTRUMENT OF APPOINTMENT AND REGULATORY ACCOUNTS

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

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

EMPLOYEES

Information on employment policies and practices is contained within the 'Best people right culture' part of the Strategic Report on pages 22 and 23.

ENVIRONMENTAL MATTERS

Information on environmental matters and KPIs are contained within the 'Environmentally sustainable' part of the Strategic Report on pages 16 to 19.

OUTLOOK

Commentary on the main drivers of future profitability is contained in the Strategic Report on page 34.

THE STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

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

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

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

Each of the directors, whose names and functions are listed on page 43 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 46 to 60. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

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

Stephen Robson
Company Secretary
24 July 2015

CORPORATE GOVERNANCE REPORT

Introduction

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

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

We have fused together these Ofwat principles and the UK Corporate Governance Code into our code of corporate governance ("the Code"), available on our website.

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

Board and Board committees

The Chairman

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

Non-executive Directors

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

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

On 1 January 2015 Mr Tim Tutton was appointed to the Board as a non-executive director. On 27 March 2015 Mr Jack Bittan, a non-executive director representing Capstone Infrastructure, and Mr Paul Bourdillon, a non-executive director representing Agbar, resigned. These changes in the Board membership mean that the Board complies with the Ofwat Principles which require that:

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

The recruitment process for Mr Tutton was conducted by an external independent firm, Odgers Berndtson in conjunction with a team appointed by the Nomination Committee consisting of the chairman and Mr García. Details of Mr Tutton's background and experience are mentioned on page 41.

CORPORATE GOVERNANCE REPORT (continued)

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

At 21 May 2015 the Board comprised the Chairman (a non-executive director), three executive directors and eight other non-executive directors. Four of the non-executive directors are, in the opinion of the Board, independent. Messrs Curling and McIlwraith have both served for more than nine years on the Board, and the Code requires the Board to specifically assess that these directors are independent of the executive as a result of this fact. That assessment has been carried out by the Board and the Board believes that this time served has not caused the two directors to cease to be independent either in character or in judgement. Given the importance of the five year cycles of the regulated business the Board wishes to retain the benefit of their experience at this point in the regulatory cycle especially as the PR14 determination is under review at the CMA so the PR14 process is not yet complete. This assessment has been made by the Board based on its views of their performance on the Board and taking into account their experience and character. 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.

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

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

Review of the Board performance

The Board performs an annual review of its performance and considers this to be sensible part of good corporate governance. Following an external independent evaluation of the Board and its committees' performance in 2013/14, the Board conducted an internal evaluation of its performance including that of its committees and individual directors. Each director was asked to answer a suite of questions on performance devised for the Company which included areas of corporate governance. The results were considered at the July 2015 board meeting.

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

The non-executives met without the executive directors present on 5 February 2015.

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

CORPORATE GOVERNANCE REPORT (continued)

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

	Number of meetings					
	Board meetings attended (maximum 11)	Maximum possible during appointment period	Percentage attendance during appointment period	ARAC meetings (maximum 6)	Remuneration Committee meetings (maximum 2)	Nomination Committee meetings (maximum 3)
K Ludeman, <i>Chairman</i>	11	11	100%			3
L García, <i>Chief Executive Officer</i>	11	11	100%			3
M Axtell, <i>Finance Director</i>	11	11	100%			
M King, <i>Regulatory Director</i>	11	11	100%			
P McIlwraith, <i>Non-Executive</i>	11	11	100%	6	2	3
C Curling, <i>Non-Executive</i>	11	11	100%	6	2	3
R Davis, <i>Non-Executive</i>	11	11	100%	6	2	3
T Tutton, <i>Non-Executive (appointed on 1 January 2015)</i>	4	4	100%	2	0	0
M Bernstein, <i>Non-Executive</i>	11	11	100%		2	3
M Smerdon, <i>Non-Executive</i>	11	11	100%	6		
J Bittan, <i>Non-Executive (resigned on 27 March 2015)</i>	11	11	100%			
A Harding, <i>Non-Executive</i>	10	11	91%		1	3
P Bourdillon, <i>Non-Executive (resigned on 27 March 2015)</i>	9	11	82%			
H Ichishi, <i>Non-Executive</i>	11	11	100%			

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

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

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

Audit and Risk Assurance Committee (“ARAC”)

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

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

CORPORATE GOVERNANCE REPORT (continued)

Areas of management judgements considered by the Committee

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

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

Financial Judgement	How the Committee addressed the judgement
<p>Pension surplus valuation</p> <p>Pension arrangements for the Company's employees are provided partly through the Company's membership of the WCPS, which provides defined benefits based on final pensionable pay.</p> <p>Due to the nature of the benefit, the amounts recognised in the financial statements which are based on the principles set out in FRS17, involve significant assumptions including:</p> <ul style="list-style-type: none"> • future level of members' salaries, • longevity estimation for scheme members, • rate of return on the scheme assets, • calculation of the present value of pension liability, and • other demographic factors. <p>Accordingly, accounting for pensions is regarded as a key judgemental area.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none"> • The calculations for determining the pension position performed by an independent and qualified actuary in accordance with the principles of the accounting standard (FRS17). • An assessment of the degree of prudence within these assumptions. • The last funding valuation performed as of 31 March 2014 which requires a more detailed review of the key actuarial assumptions by the actuary.

CORPORATE GOVERNANCE REPORT (continued)

Financial Judgement	How the Committee addressed the judgement
<p>Bad debt provision</p> <p>Amongst utilities, water companies are in a unique situation whereby they have a statutory duty to supply customers, but no statutory power, in case of non-recovery of the water bills, to cut-off supply of domestic water users. This contributes to a higher level of bad debt in the water industry compared to other utilities despite the fact that water bills generally cost less than other utilities.</p> <p>The calculation of bad debt provision is based on estimation of collection rates in future years, and therefore involves a degree of management judgement as to the appropriateness of the provision level relative to the debtor balances.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none"> • The Committee has reviewed the key aspects of the calculation and has had detailed discussions with the management on the basis for judgement applied for the bad debt provision. • The method of calculation is considered to be sufficiently prudent. All debt that is over four years old is fully provided for, and the provision for the amounts less than four years old, follows a system approach based on the historic collection rates. • The judgement applied by the management is considered appropriate and functions as a bridge between the provision calculation based on historic collection rates, and the recent collection trends and economic factors. <p>The underlying collection and debtor balances information, used for the calculation of the provision, is provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to collate this information.</p>
<p>Accounting for expenditure on infrastructure assets</p> <p>The Company owns a network of mains and associated underground pipework, and impounding and pumped raw water storage reservoirs. These assets are collectively called 'Infrastructure assets'.</p> <p>Depending on the nature of the underlying work, expenditure on infrastructure assets is either capitalised as addition to fixed assets or treated as operational cost in the Profit and Loss Account.</p> <p>Given the size and complex nature of the capital programme, the accounting for infrastructure projects involves significant management judgement.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none"> • The nature of capital projects is reviewed by the Capital Planning and Finance teams to determine their accounting treatment. • There are robust processes and controls to appropriately allocate staff time between work on capital and operational projects. • Management perform quarterly reviews of the actual financial performance versus budget which helps identify anomalies in accounting treatment of infrastructure projects.

CORPORATE GOVERNANCE REPORT (continued)

Financial Judgement	How the Committee addressed the judgement
<p>Price determination 2015-20</p> <p>In December 2014 Ofwat set final determinations of price limits and regulatory output requirements for the five years period 2015-20 for all water companies in England and Wales. Bristol Water rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required and the impact on key financial ratios. As required by the relevant legislation, Ofwat has referred the Company's rejection to the CMA.</p> <p>Pending the Final Determination from CMA, the issue of financeability of the Company's operations for the regulatory period 2015-20 has not yet been fully resolved.</p> <p>Given the significance of the above matter, the impact of the estimated outturn of the CMA determination, the potential management responses thereto and the financing assumptions that flow therefrom involve considerable areas of judgement.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none"> • A range of possible scenarios prepared by the management and assessed against financeability requirements. • The proposed measures management may need to implement in case of a less favourable Final Determination. • Compliance with existing debt covenants and available loan facilities.

CORPORATE GOVERNANCE REPORT (continued)

Other significant financial matters considered by the Committee

Financial matter	How the Committee addressed these matters
<p>Revenue recognition Based on the number of properties, approximately 52% of our customers have a water meter installed at their properties. Meters for the majority of the customers are read on a six monthly basis.</p> <p>Therefore at the end of the year an estimation of water consumed by the customers, over the period between their last meter reading date and the year-end date, is made and an income accrual recognised accordingly.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none"> • The income accrual is based on historic metered volumes, calculation of consumption not billed, and the applicable tariffs. • Underlying data is provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to calculate the accrual. • The accrued income amounts and supporting reports are reviewed for reasonableness by the Company's management.
<p>Provision for staff redundancies In the current year, a provision was recognised in relation to the staff redundancies resulting from a restructuring programme announced on 30 March 2015.</p> <p>The proposed operating model considers certain roles at risk of redundancy, and also considers certain new required roles.</p> <p>The calculation of the provision includes:</p> <ul style="list-style-type: none"> • Estimation of the proportion of new roles expected to be filled by the roles at risk, and • Actuarial assumptions for the calculation of defined pension costs. <p>Given the level of estimation and complex nature of the actuarial assumptions, the calculation process is considered to involve significant management judgement.</p>	<p>Specific factors considered by the Committee:</p> <ul style="list-style-type: none"> • Calculation of costs, except for pension element, was performed by the consultants helping the Company with the restructuring exercise based on the staff data provided by the Human Resource team. • The calculations and the underlying assumptions were reviewed by the Human Resource and Finance teams. • Pension cost calculation was performed by the pension fund administrator, who confirmed that they engaged with the pension scheme actuary LCP for commutation factors. Commutation factor calculation involves actuarial assumptions. • Finance team checked that the provision recognition criteria met the relevant accounting standard.

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

CORPORATE GOVERNANCE REPORT (continued)

External auditors

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

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

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

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

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

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

External audit tendering

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

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

Internal auditors

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

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

Remuneration Committee

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

CORPORATE GOVERNANCE REPORT (continued)

Nomination Committee

Under the chairmanship of Mr Ludeman this committee has the task of recommending new appointments to the Board, reviewing re-appointments when they become due and undertaking annual performance evaluations of the Board Members. Before making an appointment the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. It also reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes. Mr Ludeman will not chair this committee if it discusses the performance of the chairman or the appointment of a new chairman of the Board. Its current membership comprises Messrs Ludeman, McIlwraith, Curling, Davis, Tutton, García, Bernstein and Harding.

The Committee met during the year to discuss succession planning for the non-executive directors and approved the recruitment of Mr Tutton.

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

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

Currently there is no female representation at the Board level. In our workforce of 519 at 31 March 2015 around 27% were women. Whilst in senior/middle management executive positions the female representation was around 25%. The Nomination Committee has reviewed and monitored compliance with the Board Diversity Policy and is of the view that the Board Diversity Policy is complied with.

Commitment

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

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

Induction and training of directors

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

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. The Chairman regularly reviews and agrees with each director their training and development needs. Also all the directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the Chairman or the Company Secretary.

CORPORATE GOVERNANCE REPORT (continued)

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.

Group Structure

Bristol Water's ultimate holding company is Capstone Infrastructure Corporation which is listed on the Toronto Stock Exchange. Capstone complies with the corporate governance requirements of that exchange and Canadian securities regulations, and publishes its own corporate governance guidelines on its website.

Capstone is aware of Ofwat's "Board leadership, Transparency and Governance - Holding Company Principles" published in April 2014 which set out Ofwat's expectations for what holding companies of regulated water companies should do to show their adherence to the highest standards of corporate governance. This section of the annual report addresses these Holding Company Principles and a note will go on the Bristol Water website noting the compliance with these principles and cross referring to this report where necessary.

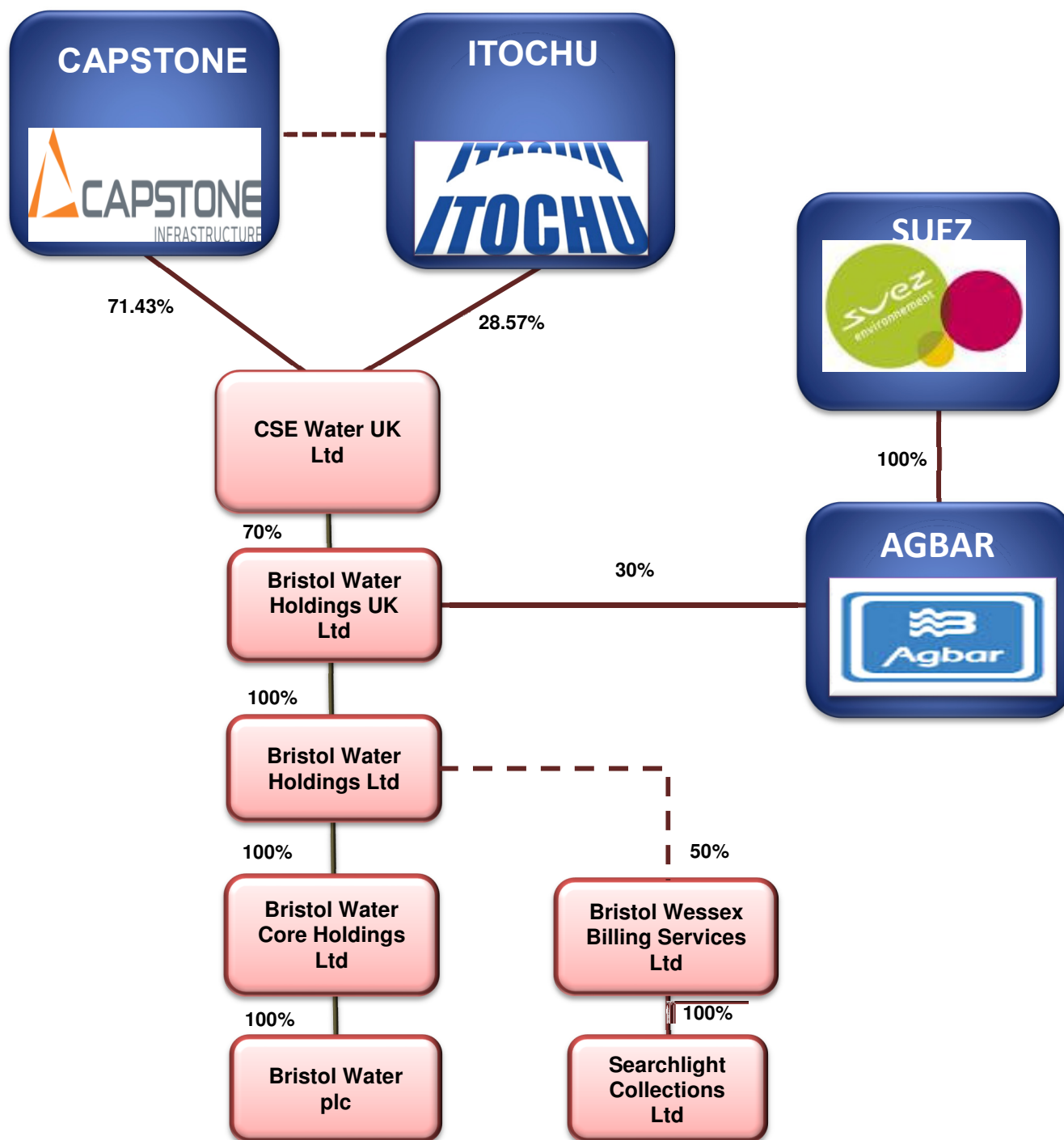
There are no matters reserved specifically by the Board of Bristol Water for the shareholders. Capstone has confirmed that, other than its public shareholders and its direct and indirect wholly-owned subsidiaries, there are no hidden beneficiaries of the regulated company within its structure. Capstone being listed on the Toronto Stock Exchange, its debt and equity structure is fully disclosed publicly. Capstone gave an undertaking compliant with Condition P of the Company's licence when it took control of the Company.

Capstone can confirm as follows:

- it is aware of and it complies with the Condition P undertaking;
- it has been briefed on Bristol Water's duties under the Water Industry Act 1991 and the licence;
- it has provided and will continue to provide information as needed to allow Bristol Water to comply with its duties as a water undertaker;
- it has provided and will continue to provide Bristol Water with the information it needs to assure itself that Bristol Water is not at risk from the activities of the wider group;
- it has disclosed and will continue to disclose to Bristol Water in writing the details of any issue identified by its directors that might materially impact upon Bristol Water so that Bristol Water can take all appropriate steps;
- it has not taken and will not take any action which might cause Bristol Water to breach any of its obligations;
- it has facilitated and will continue to facilitate the ability of Bristol Water to meet the requirements of its own Code of Corporate Governance; and
- it has supported and will continue to support Bristol Water's ability to make strategic and sustainable decisions in the long term interests of the Company.

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

CORPORATE GOVERNANCE REPORT (continued)



CORPORATE GOVERNANCE REPORT (continued)

<p>Capstone Infrastructure Corporation</p> <p>Directors V. James Sardo Michael Bernstein Goran Mornhed Jerry Patava Francois Roy Janet Woodruff Richard Knowles</p>	<ul style="list-style-type: none"> • Incorporated in British Columbia, Canada • Quoted on the Toronto Stock Exchange
<p>MPT Utilities Corporation - Capstone owns 100% of this company</p> <p>Directors Michael Bernstein Michael Smerdon Stu Miller</p>	<ul style="list-style-type: none"> • Holding company • Incorporated in British Columbia, Canada
<p>MPT Utilities Europe Limited - MPT Utilities Corporation owns 100% of this company</p> <p>Directors Michael Bernstein Michael Smerdon Stu Miller</p>	<ul style="list-style-type: none"> • Holding company • Incorporated in British Columbia, Canada
<p>CSE Water Limited - MPT Utilities Europe Limited owns 71.4% and Itochu Corporation owns 28.6% of this company</p> <p>Directors Michael Bernstein Michael Smerdon Jack Bittan Hajime Ichishi</p>	<ul style="list-style-type: none"> • Holding company • Incorporated in England & Wales
<p>Bristol Water Holdings UK Limited - CSE Water owns 70% and Agbar owns 30% of this company</p> <p>Directors Michael Bernstein Michael Smerdon Jack Bittan Juan Antonio Guijarro Ferrer Paul Bourdillon Hajime Ichishi</p>	<ul style="list-style-type: none"> • Holding company • Incorporated in England & Wales

CORPORATE GOVERNANCE REPORT (continued)

<p>Bristol Water Holdings Limited - Bristol Water Holdings UK Limited owns 100% of this company</p> <p>Directors Michael Bernstein Michael Smerdon Jack Bittan Juan Antonio Guijarro Ferrer Paul Bourdillon Hajime Ichishi</p>	<ul style="list-style-type: none"> • Holding company • Incorporated in England & Wales
<p>Bristol Water Core Holdings Limited - Bristol Water Holdings Limited owns 100% of this company</p> <p>Directors Michael Bernstein Michael Smerdon Jack Bittan Juan Antonio Guijarro Ferrer Paul Bourdillon Hajime Ichishi</p>	<ul style="list-style-type: none"> • Holding company • Incorporated in England & Wales • Part of Artesian securitisation structure
<p>Bristol Water plc - Bristol Water Core Holdings Limited owns 100% of this company</p> <p>Directors Details of the directors are provided on page 43.</p>	<ul style="list-style-type: none"> • Holds a licence as water undertaker under Water Industry Act 1991 • Incorporated in England & Wales
<p>Bristol Wessex Billing Services Limited</p> <p>Directors Charley Maher John Vinson Colin Skellett Andrew Pymer Luis García Ben Newby</p>	<ul style="list-style-type: none"> • Joint venture billing company (50% owned by Bristol Water Holdings Limited) • Incorporated in England & Wales
<p>Searchlight Collections Limited</p> <p>Directors Charley Maher John Vinson</p>	<ul style="list-style-type: none"> • Debt collection company (100% owned by BWBSL) • Incorporated in England & Wales

CORPORATE GOVERNANCE REPORT (continued)

Internal control

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

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

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

The executive directors:

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

The Company operates through a formal board structure, which:

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

The ARAC:

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

The Board:

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

The Board undertook formal assessments of risk management and control arrangements including the risk register on 9 July 2015 and concluded that the overall internal control framework was working effectively. The review included an assessment of the effectiveness of internal controls within the group's joint venture, BWBSL.

CORPORATE GOVERNANCE REPORT (continued)

Directors' responsibilities in respect of the Annual Report

The statement of the directors in respect of the Annual Report, and the statement of directors' responsibilities are contained within the Directors' Report on pages 44 and 45.

Going concern

In December 2014 Ofwat set final determinations of price limits and regulatory output requirements for the regulatory period 2015-20 for all water companies in England and Wales. Bristol Water rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required and the impact on key financial ratios. As required by the relevant legislation, Ofwat has referred the Company's rejection to the Competition and Markets Authority (CMA).

On 10 July the CMA issued its Provisional Findings broadly suggesting an increase in expenditure allowances compared to Ofwat's Final Determination. The net effect of the Provisional Findings is an increase in average charges to customers of approximately 3% per annum in real terms, and a reduction in the scope of capital work required to be undertaken in the period compared to the Ofwat final determination.

The issue of financeability of the Company's operations for the regulatory period 2015-20 has not yet been fully resolved, and the CMA has indicated this will be addressed prior to its Final Determination; however, the directors consider that the CMA's provisional changes to assumptions for certain regulatory mechanisms and the proposed increases in expenditure mentioned above represent significant improvements relative to Ofwat's Final Determination. The directors are in the process of providing a response to the CMA's Provisional Findings and await the CMA's Final Determination, expected in September 2015.

In considering the going concern basis, the directors have considered a range of possible scenarios, both favourable and unfavourable, which may arise after the CMA's Final Determination. If the outcome of the CMA's Final Determination is less favourable to the Company, the directors will implement measures to reduce capital and operating expenditure with a view to balancing service levels against lower expenditure in the short-term, and to achieving stability in the long term. After considering these matters, the existing cash and bank balance of £10.5m and unutilised committed borrowing facilities totalling £70m as of 31 March 2015, the directors of the company believe it is appropriate to adopt the going concern basis for preparing the accounts.

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

Stephen Robson
Company Secretary
24 July 2015

REMUNERATION COMMITTEE REPORT

Introduction

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

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

Key matters

The year under review has been challenging for the Company, delivering on the AMP5 programme for our customers and building towards the next AMP through the PR14 process and, more recently, the CMA referral.

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

- A salary review conducted in 2013/14 resulted in an increase of 2.5% of base salary as of April 2014 for all employees, including the executive directors.
- The Committee gave extensive consideration to the objectives and targets of the Company’s annual bonus scheme for 2014/15, in which all employees participated during the year.
- In the case of the executive directors’ bonuses the Committee reviewed the proposed outcomes, particularly the elements based on personal performance. The Chief Executive Officer earned a bonus of 27% of salary and the other executive directors earned, on average, a bonus of 26% of salary. The Committee determined that this level of bonus was appropriate, reflecting the performance against the Company’s strategic objectives during the year. The Committee considered the Project Channel restructuring of the Company which was announced on 30 March 2015 and which is likely to lead to staff redundancies. More details are provided on page 52 of the Corporate Governance Report.

The Remuneration Committee made three decisions after debating the recommendation from management that, owing to Ofwat’s Final Determination issued in December 2014:

1. no pay rises would be considered for any employee (except for agreed salary plans);
2. no bonus scheme would be proposed to apply to any employee (including executive directors) during 2015/16; and
3. similarly, any plans for a long-term incentive plan (“LTIP”) to cover performance over the upcoming AMP6 period were to be postponed.

These decisions will be revisited when the CMA issues its redetermination and the impact of the same on the Company has been fully understood. Accordingly the remuneration policy for 2015/16 might change in the light of the CMA’s redetermination.

The Committee’s priority will be that any incentives such as annual bonus or any AMP6 LTIP scheme is fully aligned to the strategy and long-term sustainable success of the business in the new regulatory environment.

REMUNERATION COMMITTEE REPORT (continued)

Role and composition of the Remuneration Committee

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

The membership of the Committee during the year comprised:

Mr Curling (Chairman), Mr Davis, Mr McIlwraith, Mr Bernstein, Mr Harding and Mr Tutton¹.

Attendances at Committee meetings are set out on page 48 in the Corporate Governance Report.

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

During the year Luis García (Chief Executive Officer) and Stephen Robson (Company Secretary) also provided material advice and services to the Committee. No director played a part in any discussions about his own remuneration. No Committee member has any personal financial interest or conflict of interest arising from cross-directorships or from day-to-day involvement in running the business.

Remuneration policy

Executive remuneration policy

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

Under normal circumstances, the Company's policy is that a significant proportion of the remuneration of the executive directors should be performance-related, as was the case during 2014/15. Owing to the Final Determination issued by Ofwat, however, the Company has removed all performance-related elements from remuneration packages for 2015/16. Any further decisions regarding remuneration in 2015/16 will not be made until the redetermination of the CMA has been issued. Further details of the 2015/16 policy can be found on pages 70 to 72.

¹ Mr Tutton was appointed to the Committee on 1 January 2015.

REMUNERATION COMMITTEE REPORT (continued)

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

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2013/14
Salary	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Factors taken into account when determining basic annual salary levels are objective research, the individual executive director's performance during the year and pay and conditions throughout the Company. Salaries are reviewed at the discretion of the Committee and are not subject to formal annual review.	Base salary increases are applied in line with the outcome of any reviews conducted by the Committee.	None, but as stated there is no pay rise planned for 2015/16 pending the outcome of the CMA redetermination.
Annual bonus	Drives and rewards performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes.	Based on the achievement of three balanced elements: customer service, financial targets and capital programme delivery targets; and an overall assessment of personal performance and achievement of individual objectives. The same business objective targets are applied to all staff who receive bonuses. The customer service targets are set around measurable outcomes which the Company believes are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the Ofwat customer service measure, the SIM. Bonus scheme targets are set annually.	Maximum of 30% of base salary (save in exceptional circumstances).	None, but as stated there is no bonus scheme planned for 2015/16 pending the outcome of the CMA redetermination.
LTIP	Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives. Align executive directors' long-term interests with those of customers, long-term shareholders and other stakeholders.	The LTIP is based not upon total shareholder return but upon long-term strategic goals of the Company, including customer outcomes. The LTIP award benefit is based on one third of the final base salary at 31 March 2015, the number of years for benefit accrual and the percentage achievement of the performance conditions of the scheme. Payments are to be made in two equal instalments on 30 September 2015 and 30 June 2016 and executives must remain with the Company in principle for the entire period to 30 June 2016 to be eligible for the full benefit.	As disclosed below.	None, save for a change in proposed payment date of the first instalment of the AMP5 LTIP from 30 June 2015 to 30 September 2015 in order to take account of the CMA redetermination. No scheme covering AMP6 performance has been proposed to date.
Pension	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Pension contributions are made to personal or the Company stakeholder schemes at a specified percentage of basic salary.	N/A	None.
Benefits	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Reflecting market practice and comprising the provision of a company car and private medical insurance. Some expatriate benefits provided to Mr García are not borne by the Company. The expatriate benefits include free furnished accommodation, utilities, tax advice and private school fees where appropriate.	N/A	None.

REMUNERATION COMMITTEE REPORT (continued)

Long-term incentive and share option schemes

The Company operates an LTIP scheme which aims to incentivise the executive team to align their long-term interests with those of customers, long-term shareholders and other stakeholders.

The LTIP currently covers Company performance achieved in AMP5. A similar scheme is being planned to cover performance in AMP6 at a suitable point after the outcome of the CMA referral process.

There is no share option scheme 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 Axtell	1 January 2014	1 year	rolling 1 year
M King	1 April 2011	1 year	rolling 1 year

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

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

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

Remuneration policy for new appointees to the executive team

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

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

REMUNERATION COMMITTEE REPORT (continued)

Non-executive directors

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

Non-executive directors do not have contracts of employment, do not participate in the Company designated pension schemes, 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.

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

Implementation of remuneration policy in 2014/15

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

Single total figure for remuneration of executive directors for 2014/15 (audited)

	L García		M Axtell ¹		M Anglada ²		M King	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
Salary/fees	194	189	123	20	-	90	112	110
Bonus	51	54	35	5	-	23	27	30
Benefits	10	9	3	3	-	10	3	3
Pension ³	12	6	7	1	-	-	7	7
Single Figure pre-LTIP	267	258	168	29	-	123	149	150
<i>Change since 2013/14</i>	<i>3.1%</i>		<i>5.7%¹</i>		<i>N/A</i>		<i>-0.9%</i>	
LTIP ⁴	187	48	36	2	-	17	43	11
Single Figure⁵	454	306	204	31	-	140	192	161

- 1 Appointed as the Finance Director on 30 January 2014. 2013/14 figures represent all remuneration payable to Mr Axtell following his appointment to the Board and excludes any remuneration prior to this point. For a better comparison, an annualised remuneration package for 2013/14 has been assumed when calculating the increase in remuneration payable since the prior year.
- 2 Resigned as the Finance Director on 30 January 2014 and, accordingly, the remuneration in the above table reflects Mr Anglada's ten months' service in 2013/14 only.
- 3 Mr Axtell and Mr García were enrolled into the Company's stakeholder pension scheme part way through 2013/14, the full year effect of this is included in 2014/15 leading to a significant year on year increase.
- 4 The figures disclosed as LTIP represent the benefit earned from performance measures which were met during 2014/15 only and have no component dependent on future years' performance; comparative figures, in some cases, may relate to a number of past years' service. These figures differ from the expenses recorded in the Profit and Loss Account, which represent a prudent estimate by management of the value of awards accrued in respect of the LTIP at 31 March 2015.
- 5 The Chief Executive Officer's single figure for 2013/14 includes £48,191 in relation to the LTIP, of which £28,915 relates to his past years' service. The LTIP earned in 2014/15 relates solely to performance achieved during the year.

Bonus includes amounts accrued and approved, but not paid as at 31 March 2015 and relates to the period served as a director.

LTIP payments will be made in two equal instalments on 30 September 2015 and 30 June 2016.

REMUNERATION COMMITTEE REPORT (continued)

Single total figure for remuneration of non-executive directors for 2014/15 (audited)

	Salary/fees	
	2014/15	2013/14
	£'000	£'000
K Ludeman	77	73
P McIlwraith	43	42
C Curling	40	39
R Davis	35	34
T Tutton ¹	9	-
M Bernstein ²	-	-
J Bittan ^{2,3}	-	-
P Bourdillon ^{2,3}	-	-
A Harding ²	-	-
H Ichishi ²	-	-
M Smerdon ²	-	-
Single Figure	204	188

1 Appointed as a non-executive director on 1 January 2015.

2 No remuneration has been paid by the Company.

3 Resigned as a non-executive director on 27 March 2015.

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

The remuneration policy for the financial year was approved by the Committee on 14 July 2014.

Salary (audited)

A salary review conducted by the Committee during 2014/15 resulted in an increase in base salary of 2.50% for all employees effective from April 2014; all executive directors, including the Chief Executive Officer, received the same level of increase in their base salaries (2013/14: all staff: 2.50% base salary increase; Chief Executive Officer: 2.50% base salary increase).

The proportion of base salary awarded to the Chief Executive Officer as annual bonus for 2014/15 fell by 8.31% compared with the prior year (2013/14: decrease of 8.87%). The proportion of base salary awarded to all other staff as annual bonus for the same period fell by 15.60% compared with the prior year (2013/14: decrease of 3.56%).

REMUNERATION COMMITTEE REPORT (continued)

Annual bonus for 2014/15 (audited)

During the year under review, as in previous years, the Company operated an annual bonus scheme for all its employees, the objectives and targets of which were agreed by the Committee in relation to all categories of employees. Different weightings were applied to these objectives for different categories of employees. At more senior levels the scheme also included elements based on personal performance.

The Company's achievement of its customer and financial performance targets in respect of the year was determined to be 69.24%. This resulted in an average bonus payment of £727 per person (2013/14: £944 per person) to all employees whose bonus objectives did not include personal performance elements.

Bonuses payable to more senior staff members, including executive directors, were determined by reference to both Company performance and personal performance elements. Entitlements were limited to a percentage of base salary dependent on seniority. In the case of the executive directors, the maximum bonus was 30% of base salary, save in exceptional circumstances. The amount paid to executive directors in respect of the year was determined by reference to the same business objectives as for all other employees.

The weighting of the customer service and financial performance measures used in the calculation of the executive directors' bonus in 2014/15, which comprise 60% of the total award, is detailed below:

Component	Description	Target	Weighting	Achieved in year	Performance achieved
EBITDA	Financial measure indicating profitability of the Company during the year.	Meet performance targets set in budget as agreed with the Board.	20.00%	102.30%	20.46%
Capital expenditure	Balance of measures about capital delivery to time and to budget.	Targets set by Board regarding individual scheme delivery, overall programme delivery and efficiency.	15.00%	86.00%	12.90%
Water quality	Measures of quality of water supplied to customers, determined by scientific testing and benchmarked against industry levels.	Meet mean zonal compliance targets set by the Board.	5.00%	0.00%	0.00%
Discoloured water complaints		Meet target set by the Board.	5.00%	61.60%	3.08%
Health & Safety	Measures of number of lost time injuries, severity rating and leading indicator on hazard prevention.	Meet target set by the Board.	5.00%	60.00%	3.00%
Leakage target	Measure of the efficient use of resources by the Company in achieving environmental sustainability.	Meet targets set by Ofwat, i.e. 49MI/d.	3.33%	100.00%	3.33%
Customer minutes lost	Measure of reliability of supply recording how long, on average, customers were without a water supply.	Meet targets set by the Board using Ofwat measures.	3.33%	0.00%	0.00%
SIM	Measure of customer satisfaction implemented by Ofwat – used monthly survey results this year.	Meet targets set by the Board using Ofwat measures.	3.34%	0.00%	0.00%
			60.00%		42.77%

REMUNERATION COMMITTEE REPORT (continued)

In the year under review the weightings for the senior executives applied to achievements against these objectives resulted in an outcome of 42.77% against a maximum of 60% for the Board's agreed performance targets.

The remaining 40% of the total bonus award was determined via a year end assessment of each executive director's performance against their individual performance objectives set by the Board. The result of this assessment was reflected as a percentage, which was added to the Company performance outcome. An overall percentage was then applied based on the executive's performance assessment outcome result to finalise the level of bonus payable.

The personal objectives for 2014/15 set for each executive director comprised elements based on required performance in the PR14 regulatory process, ensuring that the business maintained its service provision, and some specific personal objectives fitting the nature of the individual's role. All personal elements were subject to careful moderation to ensure consistency of application.

Although performance against personal objectives comprised a maximum of 40% of the total bonus awarded to an executive director, in instances of exceptional individual performance a further multiple could be applied to the personal performance assessment outcome at the discretion of the Committee. As such, and given that the total bonus award could not normally exceed 30% of base salary, the maximum bonus which could be earned by an executive director was 120% of their bonus entitlement, i.e. 36% of base salary. This entitlement was also available to all staff who earned a bonus and achieved exceptional performance against their personal objectives.

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

L García	74% of maximum bonus entitlement, i.e. 27% of base salary
M Axtell	80% of maximum bonus entitlement, i.e. 29% of base salary
M King	66% of maximum bonus entitlement, i.e. 24% of base salary

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

Benefits (audited)

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

Benefits, including benefits in kind, payable to the Chief Executive Officer increased by 3.58% compared with the prior year (2013/14: constant). Benefits payable to all other eligible staff have remained constant compared with the prior year (2013/14: constant).

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

REMUNERATION COMMITTEE REPORT (continued)

LTIP (audited)

The performance conditions governing awards under the rules of the LTIP during the year under review, and their respective weightings, are summarised below:

	Weighting of Performance Measure	Performance Achieved
<i>AMP5 – Customer Service and Operational Performance</i>		
SIM score	15.00%	15.00%
Health and safety	10.00%	4.84%
	25.00%	19.84%
<i>AMP5 – Financial Performance</i>		
AMP5 financial performance (adjusted EBITDA)	15.00%	12.40%
Capital expenditure	10.00%	8.84%
Dividend Return	10.00%	7.00%
	35.00%	28.24%
AMP5 - total	60.00%	48.08%

The remaining elements of the LTIP are commercially sensitive, being linked to the outcome of the CMA referral of the PR14 process. All performance measures were agreed with the equity shareholders prior to the implementation of the LTIP.

Each of the performance conditions has specific and measurable performance indicators. All the performance indicators and their respective weightings were determined by the Committee.

The executive directors who are participants in the LTIP, their service period over which they accrue the LTIP benefit, and the period for which they have already accrued the benefit, are summarised below:

	Total number of years for benefit accrual	Number of years accrued at 31 March 2015
L García, <i>Chief Executive Officer</i>	5	5
M Axtell, <i>Finance Director (appointed on 30 January 2014)</i>	1.25	1.25
M Anglada, <i>Finance Director (resigned on 30 January 2014)</i>	3	3
M King, <i>Regulatory Director</i>	2	2

The actual award payments will be calculated as a multiple of one third of the final base salary at 31 March 2015, the number of years for benefit accrual and the percentage achievement of the performance conditions mentioned above. The payments will be made in two equal instalments on 30 September 2015 and 30 June 2016. Both the payments will be subject to the participants continuing in their service as Bristol Water employees to the dates of payment, except for Miquel Anglada who was transferred to another position in the Agbar Group from 30 January 2014.

Pension arrangements (audited)

At 31 March 2015, no director was accruing benefits under the Company's defined benefit pension scheme.

Mr García became a member of the Company designated stakeholder pension scheme in October 2013 under the Government's pension auto-enrolment legislation. Since that time, the Company has been making contributions equivalent to 6% of annual base salary to the scheme on Mr García's behalf. Contributions paid to the scheme for the financial year totalled £11,556 (2013/14: £5,642).

At 31 March 2015, Mr Axtell was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme during the financial year was £7,380, an amount equivalent to 6% of annual base salary (2013/14: £1,255, an amount equivalent to 6% of base salary earned since appointment to the Board).

REMUNERATION COMMITTEE REPORT (continued)

Mr King became a member of the Company designated stakeholder scheme on 1 April 2015. For the duration of 2014/15, Mr King was not a member of the Company designated stakeholder pension scheme; however, the Company did make contributions to a private pension scheme on his behalf amounting to £6,736, equivalent to 6% of annual salary (2013/14: £6,572, 6% of annual salary).

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

Interests in shares (audited)

During the year ended 31 March 2015 none of the directors had any interest in the shares of the Company.

How the remuneration policy will be applied in 2015/16

The Company's policy regarding pension contributions and benefits will remain the same as for 2015/16. The Committee has adopted the recommendation from management that, owing to the Ofwat Final Determination issued in December 2014, no pay rises will be considered for any employee (except for agreed salary plans) and that no bonus scheme would be proposed to apply to any employee (including executive directors) during 2015/16. Similarly, no LTIP has been proposed to cover performance over the upcoming AMP6 period.

These decisions will be revisited when the CMA issues its redetermination and the impact of the same on the business has been fully understood. Accordingly the remuneration policy for 2015/16 might change in the light of the CMA's redetermination.

Subject to the outcome of the CMA referral, it is the Committee's priority to ensure that any potential performance-related remuneration proposed in the future will be tailored such as to reward achievement of strategic and regulatory outcomes and align the interests of the executive team with those of customers, long-term shareholders and stakeholders.

The only exception to the policy described above relates to a specific performance measure of the AMP5 LTIP scheme. The performance measure, being linked to the PR14 process, is commercially sensitive and achievement against this measure cannot be evaluated until the CMA redetermination is issued. As such, it is possible for the members of the AMP5 scheme to earn up to a maximum of 15% of their final LTIP award during 2015/16.

In line with the BIS disclosure requirements in respect of directors' remuneration, the minimum, expected and maximum total remuneration of the executive directors based upon the proposed policy for 2015/16 is shown in the charts on the following pages.

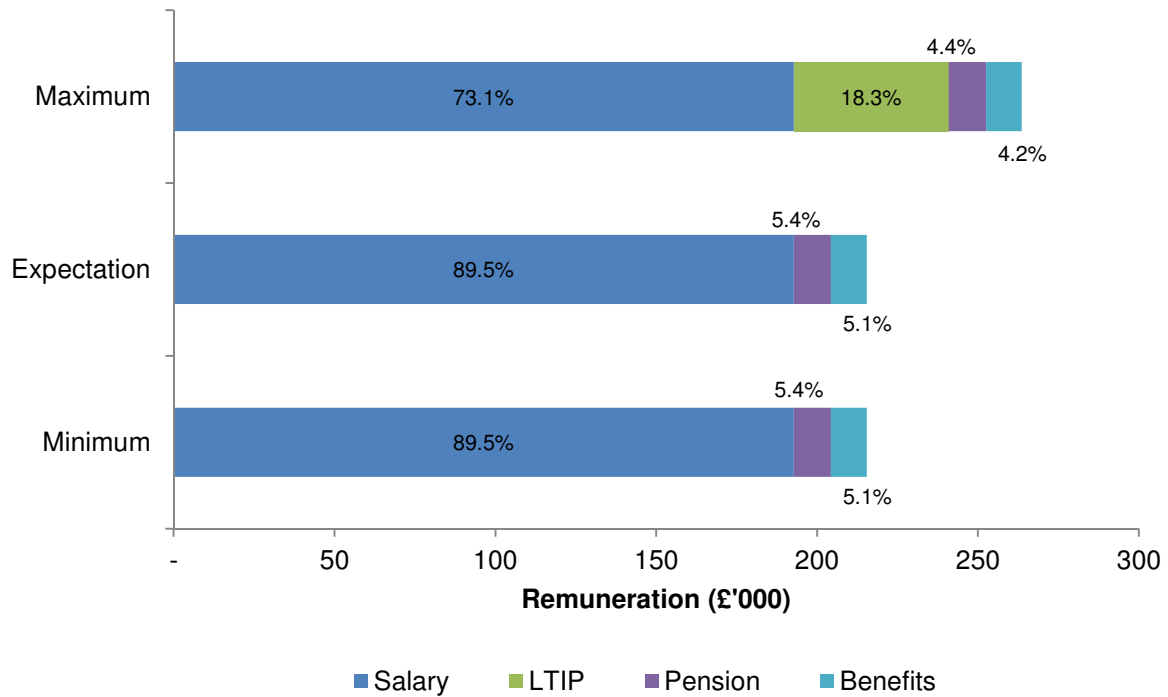
Aside from the outstanding AMP5 LTIP component, the proposed policy for 2015/16 includes no performance-related elements. The remuneration packages for the executive directors therefore consist solely of fixed basic elements, namely base salary, pension (being a fixed percentage of base salary) and any benefits receivable.

With respect to the outstanding LTIP component, it is the current expectation of management that performance against the relevant objectives will give an outcome of 0%.

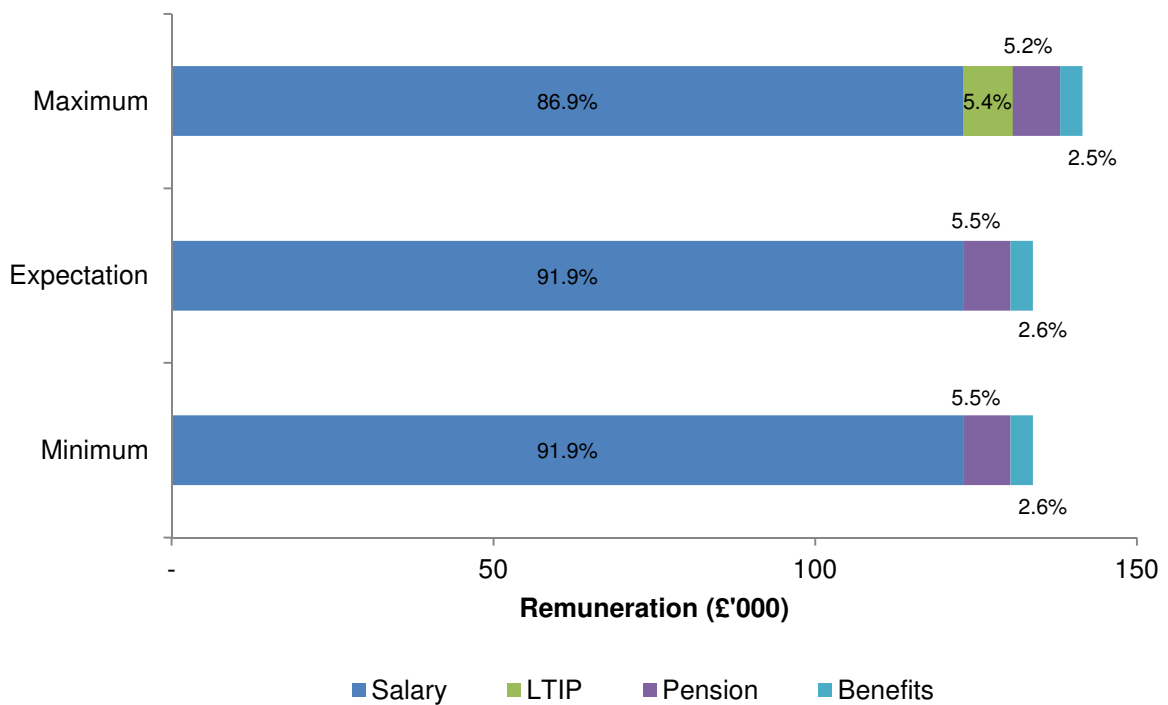
The minimum and the expected remuneration scenarios in the following charts are therefore identical; the maximum scenario incorporates the maximum 15% award achievable under the remaining LTIP performance condition.

REMUNERATION COMMITTEE REPORT (continued)

L García: Chief Executive Officer

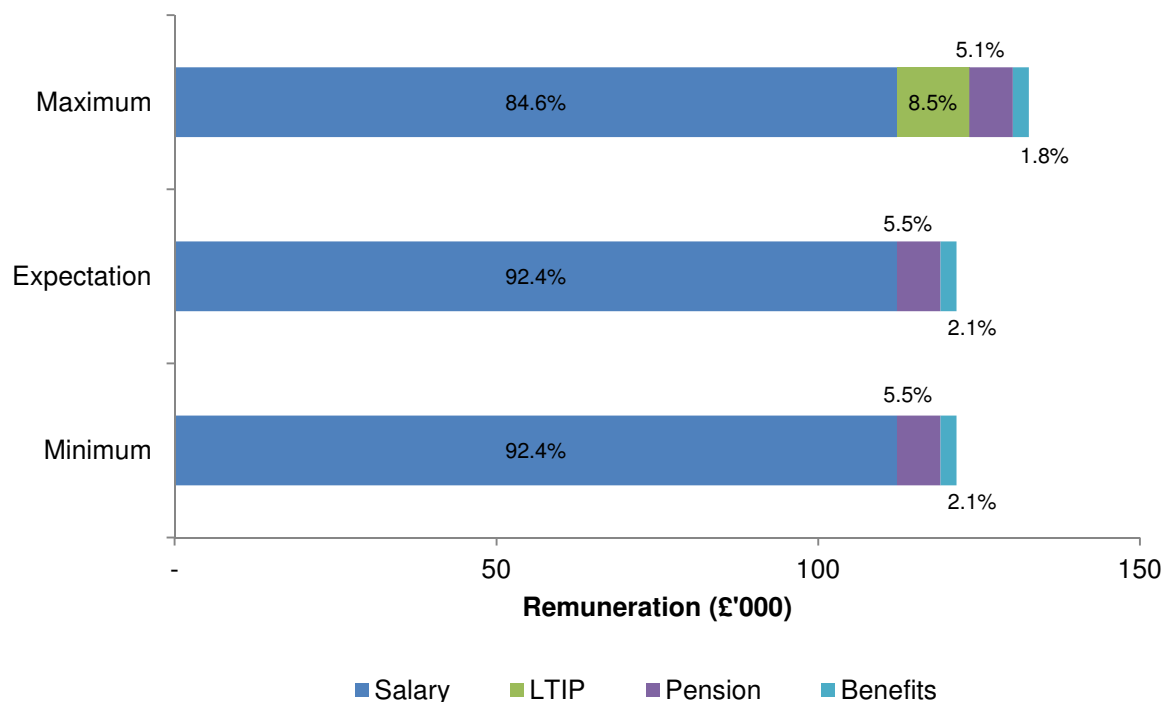


M Axtell: Finance Director



REMUNERATION COMMITTEE REPORT (continued)

M King: Regulatory Director



Historic Chief Executive Officer remuneration

The following table shows the total remuneration payable by the Company to Luis García, the Chief Executive Officer, in respect of service for the five year period from 1 April 2010 to 31 March 2015.

	Year ended 31 March:				
	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000
Base salary	149	156	185	189	194
Bonus					
Bonus	43	33	58	54	51
<i>Bonus as proportion of salary</i>	29%	21%	31%	29%	27%
<i>Maximum bonus achievable (of base salary)</i>	36%	36%	36%	36%	36%
<i>Proportion of maximum bonus achieved</i>	80%	59%	87%	79%	73%
LTIP earned	-	-	-	48	187
Benefits	8	8	9	9	10
Pension	-	-	-	6	12
Total remuneration	200	197	252	306	454

Of the £186,606 earned in 2014/15 in respect of the LTIP, £149,285 relates to service prior to 2014/15.

LTIP payments will be made in two equal instalments on 30 September 2015 and 30 June 2016.

REMUNERATION COMMITTEE REPORT (continued)

Importance of pay

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

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
EBITDA	69.6	66.5
PBT	21.4	14.5
Payments to shareholders:		
Base level dividends	10.3	10.1
Inter-company loan interest related dividends	3.2	3.1
Payments to employees:		
Wages and salaries excluding directors	16.5	15.7
Wages and salaries including directors	17.5	16.5

Shareholder and employee input in setting remuneration policy

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

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

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

Chris Curling
Chairman of Remuneration Committee
24 July 2015

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2015

		2015	2014
	Note	£m	£m
Turnover	2	132.8	123.9
Operating costs	3	<u>(100.1)</u>	<u>(96.0)</u>
Operating profit		<u>32.7</u>	<u>27.9</u>
Gain/(loss) on disposal of tangible assets		<u>0.3</u>	<u>(0.6)</u>
Other net interest payable and similar charges	4	(10.5)	(11.7)
Dividends on 8.75% irredeemable cumulative preference shares	4	(1.1)	(1.1)
Net interest payable and similar charges		<u>(11.6)</u>	<u>(12.8)</u>
Profit on ordinary activities before tax		21.4	14.5
Tax on profit on ordinary activities	5	<u>(7.6)</u>	<u>2.6</u>
Profit for the financial year		<u>13.8</u>	<u>17.1</u>
Earnings per ordinary share	6	<u>230.0p</u>	<u>285.1p</u>
Dividends per ordinary share			
- paid during the year	21	<u>224.8p</u>	<u>220.2p</u>

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

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2015

		2015	2014
	Note	£m	£m
Profit for the financial year		13.8	17.1
Actuarial gains/(losses) recognised in respect of retirement benefit obligations	23	1.6	(3.0)
Attributable deferred tax	18	(0.3)	1.0
Change in the fair value of the interest rate swaps	17	(0.6)	0.8
Attributable deferred tax	18	0.1	(0.2)
Total recognised gains for the financial year		14.6	15.7

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 March 2015

	Note	2015	2014
		£m	£m
Profit for the financial year		13.8	17.1
Other gains/(losses) recognised during the year (net)		0.8	(1.4)
Equity dividends paid	21	(13.5)	(13.2)
		<hr/>	<hr/>
Increase in shareholders' funds during the year		1.1	2.5
Total shareholders' funds at 1 April		91.8	89.3
		<hr/>	<hr/>
Total shareholders' funds at 31 March		92.9	91.8
		<hr/>	<hr/>

BALANCE SHEET

at 31 March 2015

		2015	2014
	Note	£m	£m
Tangible assets	7	364.0	345.9
Other investments - Loans to group undertakings	8	68.5	68.5
Current assets			
Stocks	9	1.3	1.3
Debtors	10	34.5	31.9
Cash on deposit	11	-	2.0
Cash at bank and in hand		10.5	10.7
		46.3	45.9
Creditors: amounts falling due within one year			
Current portion of long-term borrowings	12	(0.4)	(0.4)
Other creditors	13	(42.5)	(42.9)
		(42.9)	(43.3)
Net current assets		3.4	2.6
Total assets less current liabilities		435.9	417.0
Creditors: amounts falling due after more than one year	14	(306.7)	(292.1)
8.75% irredeemable cumulative preference shares	14	(12.5)	(12.5)
Provisions for liabilities	18	(27.3)	(21.3)
Deferred income	15	(7.8)	(8.3)
Net assets excluding retirement benefit surplus		81.6	82.8
Retirement benefit surplus	23	11.3	9.0
Net assets including retirement benefit surplus		92.9	91.8
Capital and reserves			
Called-up share capital	19	6.0	6.0
Share premium account	20	4.4	4.4
Other reserves	20	4.3	4.8
Profit and loss account	20	78.2	76.6
Total shareholders' funds	20	92.9	91.8

The financial statements of Bristol Water plc, registered number 2662226 on pages 74 to 112, were approved by the Board of Directors on 24 July 2015 and signed on its behalf by:

Luis García, Director

Mick Axtell, Director

CASH FLOW STATEMENT

for the year ended 31 March 2015

		2015	2014
	Note	£m	£m
Net cash inflow from operating activities	24(a)	68.5	66.4
Returns on investments and servicing of finance			
Interest received		4.1	4.1
Interest paid on term loans and debentures		(11.1)	(10.7)
Interest paid on finance leases		(0.2)	(0.1)
Dividends paid on 8.75% irredeemable cumulative preference shares		(1.1)	(1.1)
		<u>(8.3)</u>	<u>(7.8)</u>
Taxation			
Corporation tax paid		(2.6)	(1.2)
Capital expenditure and financial investment			
Purchase of tangible assets		(60.7)	(83.8)
Contributions received		3.6	4.0
Proceeds from disposal of tangible assets		0.5	0.1
		<u>(56.6)</u>	<u>(79.7)</u>
Equity dividends paid	21	(13.5)	(13.2)
Cash outflow before management of liquid resources and financing		(12.5)	(35.5)
Management of liquid resources being decrease in liquid resources	11	2.0	7.5
Financing			
New bank loans net of issue costs		60.6	51.6
Capital element of lease repayments		(0.3)	(2.1)
Repayments of long-term debt		(50.0)	(14.0)
		<u>10.3</u>	<u>35.5</u>
(Decrease)/increase in cash in the year	24(b)	(0.2)	7.5
Cash, beginning of year		10.7	3.2
Cash, end of year		10.5	10.7

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

(a) **Accounting convention**

The financial statements 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.

From 1 April 2015 the existing UK GAAP accounting is abolished, and the Company adopts Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework' (under EU IFRS). Accordingly 2015/16 'Interim Accounts' and the 'Annual Report' will be under FRS 101.

(b) **Going concern**

As detailed in the Corporate Governance Report on page 60, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

(c) **Turnover**

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

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

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

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

1. ACCOUNTING POLICIES (continued)

(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.

1. ACCOUNTING POLICIES (continued)

(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 financial statements.

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.

The pension scheme surplus (to the extent that it is recoverable through reduced contributions in the future or refunds from the scheme) or deficit is recognised in full.

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.

1. ACCOUNTING POLICIES (continued)

(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, 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 financial year or with reasonable assurance in the future. Credit is taken for ACT previously written off when it is recovered against mainstream corporation tax liabilities.

Deferred tax is recognised in respect of all timing 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. 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.

(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 financial statements for water held in store.

1. ACCOUNTING POLICIES (continued)

(m) **Financial instruments**

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

In accordance with the provisions of FRS 25, 'Financial Instruments: Presentation', and FRS 26, 'Financial Instruments: Recognition and Measurement', the Company values its interest-rate swaps on the balance sheet.

Hedge accounting

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

The effective portion of the swaps 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 related 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.

(n) **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 (j) above, is not material and therefore the provisions are not discounted.

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 –

	2015 £m	2014 £m
Consumables	2.3	2.6
Wages and salaries	17.5	16.5
Social security costs	1.7	1.5
Other pension costs	2.9	2.8
Total payroll cost	22.1	20.8
Less capitalised as tangible assets	(8.9)	(8.6)
Net payroll cost	13.2	12.2
Depreciation of tangible assets (note 7)		
On owned assets	36.6	38.1
On leased assets	0.8	1.0
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	47.5	42.4
Total operating costs	100.1	96.0

(b) Employee details -

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

	2015 No.	2014 No.
Water treatment and distribution	276	273
Support services	109	105
Administration	78	74
Non-appointed activities	25	37
	488	489

(c) Directors' emoluments -

	2015 £m	2014 £m
Aggregate emoluments of directors, being remuneration, bonus, pension, LTIP and benefits in kind	0.9	0.8

The highest paid director during the year was Mr García; full details of his, and all other directors' emoluments, are disclosed in the Remuneration Committee Report on pages 65 to 70.

3. OPERATING COSTS (continued)

(d) Independent auditors' remuneration

	2015 £'000	2014 £'000
The auditors' remuneration comprised:		
Fees payable for the audit of the Company's annual statutory financial statements	48	47
Fees payable for the review of the Company's interim financial statements	8	8
Services pursuant to legislation, principally related to regulatory accounts and returns	33	32
Fees payable in respect of agreed upon procedures work for our PR14 submission	49	65
Fees payable in respect of advice on future changes to the UK GAAP	-	12
Fees payable in respect of pension scheme review	3	3
'PwC Inform' subscription	1	1
Total non-audit fees	94	121

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £m	2014 £m
Interest payable and similar charges relate to:		
Bank borrowings	1.8	1.5
Term loans and debentures	9.3	9.2
- interest charges		
- indexation and amortisation of fees and premium on loans	3.7	4.8
Finance leases	0.2	0.1
	15.0	15.6
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
Net interest (income)/charge in respect of retirement benefit scheme	(0.4)	0.2
Interest payable and similar charges	15.7	16.9
Less interest receivable and similar income		
Loan to Bristol Water Holdings UK Limited - interest receivable	(4.0)	(4.0)
Other external investments and deposits	(0.1)	(0.1)
Interest receivable and similar income	(4.1)	(4.1)
Net interest payable and similar charges	11.6	12.8

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.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2015 £m	2014 £m
(a) Analysis of charge/(credit) for the financial year, all arising in the United Kingdom:		
Current tax:		
Corporation tax at 21% (2013/14: 23%) (note 5(b))	3.3	2.3
Adjustment to tax in respect of prior years	(1.0)	(0.1)
	<u>2.3</u>	<u>2.2</u>
Deferred tax (note 18):		
Origination and reversal of timing differences	1.3	1.2
Effect of corporation tax rate change	-	(5.0)
Adjustment to prior years	1.0	0.1
	<u>2.3</u>	<u>(3.7)</u>
Effect of discounting	3.0	(1.1)
	<u>5.3</u>	<u>(4.8)</u>
Tax on profit on ordinary activities	<u>7.6</u>	<u>(2.6)</u>

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.

Discounting rates decreased during the financial year (2013/14: increased). If the balances at the end of the previous financial year had been valued using the current closing discount rates there would have been an increase in the overall discounted deferred tax charge of £3.4m. This increase is recognised within the effect of discounting in the current year.

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 (2013/14: £3.9m) of unrecognised ACT carried forward at 31 March 2015.

The Company also holds £2.9m (2013/14: £2.9m) of unrecognised capital losses, which are available to offset against any future capital gains.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Reconciliation of the current tax charge

The current tax rate for the year is lower (2013/14: lower) than the standard rate of Corporation Tax in the United Kingdom of 21% (2013/14: 23%). The differences are explained below:

	2015 £m	2014 £m
Profit on ordinary activities before tax	<u>21.4</u>	<u>14.5</u>
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 21% (2013/14: 23%)	4.5	3.3
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	(1.2)	(1.0)
Additional retirement benefit contributions	(0.2)	(0.2)
Long-term timing differences	<u>(0.1)</u>	<u>(0.1)</u>
	3.3	2.3
Adjustment to tax in respect of prior years	<u>(1.0)</u>	<u>(0.1)</u>
Total current tax charge [note 5(a)]	<u>2.3</u>	<u>2.2</u>

6. EARNINGS PER ORDINARY SHARE

	2015 m	2014 m
Basic earnings per ordinary share have been calculated as follows -		
Average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£13.8	£17.1
Weighted average number of ordinary shares	<u>6.0</u>	<u>6.0</u>

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

7. TANGIBLE ASSETS

- (a) The movements for the year comprise –

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infra- structure assets £m	Assets under construction £m	Total £m
Cost					
At 1 April 2014	273.9	61.9	362.5	31.6	729.9
Additions	-	-	25.8	33.5	59.3
Capitalisation of completed assets	38.0	5.9	5.4	(49.3)	-
Disposals	(2.1)	(7.4)	-	-	(9.5)
Grants and contributions	-	-	(3.6)	-	(3.6)
At 31 March 2015	309.8	60.4	390.1	15.8	776.1
Accumulated Depreciation					
At 1 April 2014	117.6	42.6	223.8	-	384.0
Charge for year	10.5	5.0	21.9	-	37.4
Disposals	(1.9)	(7.4)	-	-	(9.3)
At 31 March 2015	126.2	40.2	245.7	-	412.1
Net book value at 31 March 2015	183.6	20.2	144.4	15.8	364.0
At 31 March 2014	156.3	19.3	138.7	31.6	345.9

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 2015 is freehold land, not subjected to depreciation in the year, of £1.7m (2013/14: £1.7m).
- (c) Included above at 31 March 2015 are tangible assets held under finance leases analysed by asset type as follows:

	Freehold land operational, properties and structures £m	Plant and equipment £m	Infra- structure Assets £m	Total £m
At 31 March 2015				
Cost	35.4	2.6	1.2	39.2
Accumulated depreciation	(27.3)	(2.6)	-	(29.9)
Net book value	8.1	-	1.2	9.3
At 31 March 2014				
Cost	36.3	5.5	1.2	43.0
Accumulated depreciation	(27.2)	(5.5)	-	(32.7)
Net book value	9.1	-	1.2	10.3

- (d) The net book value of infrastructure assets is stated after the deduction of contributions of £73.5m (2013/14: £69.9m) as explained in note 1(e).

8. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

£m

Balance at 31 March 2015 and 31 March 2014

68.5

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

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

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

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:

	2015 £m	2014 £m
Trade debtors (a)	30.2	28.8
Less bad debt provision (a)	(16.2)	(15.3)
	<u>14.0</u>	<u>13.5</u>
Amounts owed by group and associated companies (b)	1.1	1.4
Other debtors	1.6	3.1
Prepayments and accrued income	17.8	13.9
	<u>34.5</u>	<u>31.9</u>

(a) Trade debtors are aged as:

	2015 £m	2014 £m
Past due by 0-30 days	3.2	0.1
Past due by 31-120 days	2.0	3.9
Past due by more than 120 days	8.8	9.5
	<u>14.0</u>	<u>13.5</u>

Bad debt provision:

	2015 £m	2014 £m
At 1 April	15.3	14.3
Provision for trade debtors impairment	3.7	3.5
Trade debtors written off during the year as uncollectible	(2.8)	(2.5)
At 31 March	<u>16.2</u>	<u>15.3</u>

(b) The sum of £0.4m (2013/14: £0.4m) is included within the heading "Due from group and associated companies" in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited, a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

11. CASH ON DEPOSIT

	2015 £m	2014 £m
Cash on deposit maturing up to three months from the balance sheet date	-	2.0
	<u>-</u>	<u>2.0</u>

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: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £m	2014 £m
Current portion of long-term borrowings		
Finance leases	0.4	0.4
	<u>0.4</u>	<u>0.4</u>

These borrowings are secured as described in note 14.

13. OTHER CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015	2014
	£m	£m
Receipts in advance	13.1	12.3
Trade creditors	14.4	15.7
Amounts owed to associates	1.3	1.0
Other taxation and social security	0.9	0.8
Corporation tax payable	1.0	1.3
Payments received on account	0.9	1.5
Accruals and deferred income	10.9	10.3
	42.5	42.9

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2015	2014
	£m	£m
Bank and other term loans – secured	298.8	284.1
Debenture loans	1.6	1.6
Finance leases – secured	2.2	2.5
Net unamortised premiums arising on issue of term loans	2.3	2.7
Total excluding 8.75% irredeemable cumulative preference shares and interest rate swaps	304.9	290.9
Interest rate swaps	1.8	1.2
	306.7	292.1
8.75% irredeemable cumulative preference shares	12.5	12.5
Total	319.2	304.6

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 (2013/14: 12,500,000).

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The movements in net unamortised premiums were as follows:

	2015 £m	2014 £m
Net unamortised premiums at 1 April	2.7	3.3
Amortised during the year	-	(0.4)
Loan issue costs on loans drawn during the year	(0.4)	(0.2)
Net unamortised premiums at 31 March	2.3	2.7

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:

	2015 £m	2014 £m
Within one year	-	-
Between one and two years	-	-
Between two and five years	0.3	0.4
After five years	2.0	2.3
	2.3	2.7

Security for borrowings

The majority of the Company's financial liabilities are secured. The security is given:

In respect of the Company:

- by way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 1991), its present and future goodwill, all rights and claims in relation to charged bank accounts, all book debts, all insurances, all rights, title and interest to all investments and all plant and machinery, and
- a floating charge over the whole of its undertaking.

Prior to enforcement of the security by the lender, the Company is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the Company's Security Trust and Intercreditor Deed ("STID").

In respect of Bristol Water Core Holdings Limited (the immediate parent of the Company), as security for the obligations of the Company:

- a fixed charge over its shares in the Company together with a floating charge over the whole of its undertaking.

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Net borrowings and maturities

At 31 March 2015 net borrowings comprise -

	Term loans less cash £m	Finance leases £m	Debentures and irredeemable preference shares £m	Interest rate swaps £m	Total 2015 £m	Total 2014 £m
Repayment due:						
Between one and two years						
Finance leases	-	0.4	-	-	0.4	0.3
Between two and five years						
Finance leases	-	1.3	-	-	1.3	1.2
Repayable 2017, variable interest at six month LIBOR plus a margin	10.0	-	-	-	10.0	10.0
Repayable 2017, variable interest at three month LIBOR plus a margin	10.0	-	-	-	10.0	10.0
Repayable 2017, variable interest at one month LIBOR plus a margin	-	-	-	-	-	26.0
Repayable 2015, variable interest at one month LIBOR plus a margin	-	-	-	-	-	13.0
Repayable 2019, variable interest at three month LIBOR plus a margin	50.0	-	-	-	50.0	-
Interest rate swap, exchanging six month LIBOR for a fixed rate of 5.025%	-	-	-	0.6	0.6	1.2
Interest rate swap, exchanging three month LIBOR for a fixed rate of 1.504%	-	-	-	1.2	1.2	-
After 5 years						
- Other than by instalment – Term loans						
Repayable 2032, principal index-linked to RPI, fixed interest at 3.635%*	126.6	-	-	-	126.6	123.4
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%	44.7	-	-	-	44.7	44.2
- By instalments – Finance leases	-	0.5	-	-	0.5	1.0
Net unamortised premiums	2.3	-	-	-	2.3	2.7
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	301.1	2.2	1.6	1.8	306.7	292.1
Current portion of debt	-	0.4	-	-	0.4	0.4
	301.1	2.6	1.6	1.8	307.1	292.5
Cash on deposit (note 11)	-	-	-	-	-	(2.0)
Cash at bank and in hand	(10.5)	-	-	-	(10.5)	(10.7)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	290.6	2.6	1.6	1.8	296.6	279.8
8.75% irredeemable cumulative preference shares	-	-	12.5	-	12.5	12.5
Net borrowings	290.6	2.6	14.1	1.8	309.1	292.3

* 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.

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

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2015 £m	2014 £m
Expiring in August 2017	50.0	7.0
Expiring in December 2019	20.0	24.0
	70.0	31.0

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

Minimum lease payments under finance leases

Amounts fall due as follows:

	2015 £m	2014 £m
Within one year	0.4	0.4
Between one and two years	0.4	0.3
Between two and five years	1.3	1.2
After five years	0.5	1.0
	2.6	2.9

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.

	2015 £m	2014 £m
At 1 April 2014	8.3	8.8
Less amortised during the financial year	(0.5)	(0.5)
At 31 March 2015	7.8	8.3

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:

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

The Company has also entered into interest rate swaps to manage the interest rate risk arising from its sources of finance. It is the Company's policy not to trade in financial instruments.

The Company's significant debt financing exposes it to a variety of financial risks that include the effect of changes in debt market prices, credit risks, liquidity and interest rates. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company.

The Board is responsible for setting the financial risk management policies applied by the Company. The policies are implemented by the finance department. The finance department has a policies and procedures manual that sets out specific guidelines to manage interest rate risk, credit risk and the use of financial instruments to manage these risks.

(a) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. During the year cash and cash deposits were placed with banks for either a fixed term or repayable on demand earning interest at market rates. There are also interest-bearing fixed rate loans totaling £68.5m (2013/14: £68.5m) to Bristol Water Holdings UK Limited.

(b) Interest rate risk and inflation risk of financial liabilities

The financial liabilities consist of interest-bearing loans, debentures, finance leases and 8.75% irredeemable cumulative preference shares. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The Company's practice is to maintain the majority of its net debt on a fixed or a fixed margin above movements in RPI basis. At the year-end 40%* (2013/14: 25%**) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 96% (2013/14: 82%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The residues were at floating rates.

The Company's current intention is to maintain a future interest rate management profile consisting of financial liabilities at either fixed or index-linked rates amounting to 70% or more of such liabilities. The balance between fixed or index-linked, and floating interest rate liabilities will be kept under review, and is dependent on the availability of such resources in the financial markets.

The carrying value of the Company's index-linked borrowings is exposed to changes in RPI. The Company's RCV and water charges are also linked to RPI. Accordingly index-linked debt partially hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the indexation is provided through adjustment to the principal rather than in cash.

* Variable interest rate loans totalling £60m, covered by interest rate swaps, have been considered as fixed interest rate loans for the calculation of this percentage.

** Variable interest rate loan totalling £10m, covered by interest rate swap, was considered as fixed interest rate loan for the calculation of this percentage.

16. FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk and inflation risk of financial liabilities (continued)

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 2015		31 March 2014	
	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	0.5	0.4

Inflation rate sensitivity

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

	2015 £m	2014 £m
Index-linked debt	171.3	167.7

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 2015		31 March 2014	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	1.7	1.3	1.7	1.3

(c) Credit risk

The Company is required by the Water Industry Act 1991 to supply water to all potential customers in its licensed area. In the event of non-payment by commercial customers, but not domestic customers, the Company has a right of disconnection. For all customers the Company has implemented policies and procedures designed to assess the risk of further non-payment and recoup debts.

Under the terms of the STID, cash at bank and cash deposits are placed with banks with a minimum of Moody's P-1 and Standard & Poors A-1 credit ratings. Following the downgrade of RBS, the Company has undertaken the process of seeking an alternative provider of banking services.

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:

	2015 £m	2014 £m
Long-term loans	68.5	68.5
Cash on deposit	-	2.0
Cash at bank and in hand	10.5	10.7
Debtors, net of bad debt provisions made	34.5	31.9
	113.5	113.1

16. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 77% (2013/14: 80%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

The Company actively maintains a mixture of long-term and short-term committed facilities that are designed to provide sufficient funds for operations.

The Company has a £20m facility expiring in December 2019, and a £50m facility expiring in August 2017. Both the facilities are floating rate and incur non-utilisation fees at market rates.

Under the terms of the STID the Company is required to maintain sufficient funds in a nominated account to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.7m (2013/14: £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, and includes estimates of future interest payments and loan indexation on financial liabilities.

Year ended 31 March 2015	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Trade creditors	14.4	-	-	-	14.4
Due to group and associated companies	1.3	-	-	-	1.3
Other taxation and social security	0.9	-	-	-	0.9
Corporation tax payable	1.0	-	-	-	1.0
Accruals	3.1	-	-	-	3.1
Interest bearing loans and related interest	11.6	11.6	103.4	410.5	537.1
	32.3	11.6	103.4	410.5	557.8

16. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Year ended 31 March 2014	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	15.7	-	-	-	15.7
Due to group and associated companies	1.0	-	-	-	1.0
Other taxation and social security	0.8	-	-	-	0.8
Corporation tax payable	1.3	-	-	-	1.3
Accruals	2.0	-	-	-	2.0
Interest bearing loans and related interest	13.2	26.4	80.6	512.0	632.2
	34.0	26.4	80.6	512.0	653.0

Derivative financial instruments and hedge accounting

The Company has entered into two interest rate swaps with notional values of £10m and £50m. These were effective from 22 October 2008 and 3 December 2014 respectively. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, and accordingly hedge accounting is applied as mentioned in note 1(m).

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

16. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Derivative financial instruments and hedge accounting (continued)

Year ended 31 March 2015	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Forecast receipts under the interest rate swaps	0.4	0.6	2.1	-	3.1
Contractual payments under the interest rate swaps	(1.3)	(1.3)	(2.3)	-	(4.9)
Net forecast cash outflow	(0.9)	(0.7)	(0.2)	-	(1.8)

Year ended 31 March 2014	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	-	0.7
Contractual payments under the interest rate swap	(0.5)	(0.5)	(1.0)	-	(2.0)
Net forecast cash outflow	(0.4)	(0.4)	(0.5)	-	(1.3)

(e) Covenants compliance risk

Under the terms of its principal debt agreements the Company is required to comply with covenants relating to minimum levels of interest cover and to maximum levels of net debt in relation to regulatory capital value. Failure to comply may result in various restrictions being imposed upon the Company. Risk is minimised through continuous monitoring of the relevant ratios in both emerging and forecast results, and by close control of operating cash flows and capital investment programmes.

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 assessed to approximate to their book values.

In the case of bank loans and other loans due in more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

The fair value of the Company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate loans from Artesian Finance II plc have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin. Index-linked loans from Artesian Finance plc have been discounted by reference to the UK Government index-linked gilt 2030 plus an estimated margin.

The Company's preference shares (shown as debt within these financial statements) are listed on the London Stock Exchange and their fair value is assumed to be their quoted market price.

The long-term loans to Bristol Water Holdings UK Limited have been discounted by reference to the UK Government fixed rate gilt 2032 plus an estimated margin.

Interest-rate swaps

At 31 March 2015, the Company was party to two interest rate swaps with notional values of £10m and £50m. These swaps were effective from 22 October 2008 and 3 December 2014 and will expire on 7 December 2017 and 3 December 2019 respectively. The fair values of the interest rate swaps have been calculated by discounting the expected future cash flows by reference to the implied future 6 month LIBOR and 3 months LIBOR respectively, and hence the swaps are valued as Level 3 instrument as set out by FRS 29.

In accordance with FRS 26, the liability arising under the swap agreements was recognised in these financial statements, as follows:

Liability:	2015 £m	2014 £m
Due within one year	-	-
Due after one year	1.8	1.2
	<u>1.8</u>	<u>1.2</u>

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.

17. FINANCIAL INSTRUMENTS (continued)

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 2015		31 March 2014	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Primary financial instruments issued to finance the Company				
Long-term borrowings	(304.9)	(403.2)	(290.9)	(350.0)
8.75% irredeemable cumulative preference shares	(12.5)	(19.4)	(12.5)	(18.2)
Primary financial instruments issued to finance Bristol Water Holdings UK Limited				
Long-term loans	68.5	88.9	68.5	76.3
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	(1.8)	(1.8)	(1.2)	(1.2)
	(250.7)	(335.5)	(236.1)	(293.1)

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 2015		31 March 2014	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash on deposit	-	-	2.0	2.0
Cash at bank and in hand	10.5	10.5	10.7	10.7
Debtors	34.5	34.5	31.9	31.9
Financial liabilities				
Current portion of long-term borrowings	(0.4)	(0.4)	(0.4)	(0.4)
Other creditors	(42.5)	(42.5)	(42.9)	(42.9)
	2.1	2.1	1.3	1.3

18. PROVISIONS FOR LIABILITIES

	2015 £m	2014 £m
Provision for deferred tax	26.2	21.3
Provision for staff redundancies*	1.1	-
	27.3	21.3

Provision for deferred tax comprises -

Accelerated capital allowances and capital element of finance leases	37.0	35.0
Deferred income	(0.8)	(0.8)
Short-term timing differences	(0.1)	(0.1)
Retirement benefit obligations	2.8	2.2
Interest rate swaps	(0.3)	(0.2)
	38.6	36.1
Effect of discounting	(9.6)	(12.6)
Net provision, including deferred tax on retirement benefit obligations	29.0	23.5
Less, attributable to retirement benefit obligations	(2.8)	(2.2)
Net provision, excluding deferred tax on retirement benefit obligations	26.2	21.3

Deferred tax movement:

	2015 £m	2014 £m
Provision at 1 April	23.5	29.1
Charge/(credit) to Profit and Loss Account (note 5)	5.3	(4.8)
Charge/(credit) to Statement of Total Recognised Gains and Losses in respect of:		
Retirement benefit obligations	0.3	(1.0)
Interest rate swaps	(0.1)	0.2
Provision at 31 March	29.0	23.5

* In the current year, a provision of £1.1m was made for the employee related costs of redundancies announced prior to the year end. The provision is expected to be used within the next financial year.

19. CALLED UP SHARE CAPITAL

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

	2015 £m	2014 £m
5,998,025 (2013/14: 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 Account
	£m	£m	£m	£m
At 1 April 2014	4.4	5.8	(1.0)	76.6
Profit for the financial year	-	-	-	13.8
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	1.6
Attributable deferred tax	-	-	-	(0.3)
Fair value of interest rate swaps	-	-	(0.6)	-
Attributable deferred tax	-	-	0.1	-
Dividends paid	-	-	-	(13.5)
At 31 March 2015	4.4	5.8	(1.5)	78.2

21. DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2015 £m	2014 £m
Dividends paid		
• Dividend in respect of 2012/13: Final dividend of 50.85 pence per share paid on 22 May 2013	-	3.1
• Dividend in respect of 2013/14: First interim dividend of 39.18 pence per share paid on 7 August 2013	-	2.3
Second interim dividend of 25.96 pence per share paid on 27 September 2013	-	1.6
Third interim dividend of 39.18 pence per share paid on 22 November 2013	-	2.3
Fourth interim dividend of 39.18 pence per share paid on 20 February 2014	-	2.3
Fifth interim dividend of 25.82 pence per share paid on 28 March 2014	-	1.6
Final dividend of 54.18 pence per share paid on 19 May 2014	3.3	-
• Dividend in respect of 2014/15: First interim dividend of 39.18 pence per share paid on 8 August 2014	2.3	-
Second interim dividend of 26.63 pence per share paid on 29 September 2014	1.6	-
Third interim dividend of 39.18 pence per share paid on 18 November 2014	2.3	-
Fourth interim dividend of 39.18 pence per share paid on 25 February 2015	2.4	-
Fifth interim dividend of 26.49 pence per share paid on 30 March 2015	1.6	-
	13.5	13.2

The Board has not proposed a final dividend in respect of the financial year 2014/15 (2013/14: £3.3m).

22. COMMITMENTS

Capital commitments at 31 March 2015 contracted for but not provided were £6.0m (2013/14: £26.3m).

23. RETIREMENT BENEFIT SURPLUS

(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 £1.1m (2013/14: £1.0m) represents contributions payable to the scheme. As at 31 March 2015 and 31 March 2014, all contributions due have been paid over to the scheme.

Defined benefit scheme

Pension arrangements for employees are partly provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the trustees of the scheme. The 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 the Company, the section provides benefits to former employees of the Company who transferred to BWBSL. The majority of the section assets and liabilities relate to the Company employees and ex-employees.

The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP).

The details of the last triennial valuation and current update on the funding position are provided on page 28 in the Strategic Report.

The estimated amount of the total employer contribution expected to be paid to the section for the year ending 31 March 2016 is £2.0m.

23. RETIREMENT BENEFIT SURPLUS (continued)

(b) Accounting under FRS 17 "Retirement Benefits"

Basis of valuation

The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2014 was updated to 31 March 2015, by Lane Clark & Peacock LLP, using the following major assumptions in accordance with FRS 17:

	2015	2014	2013
Assumptions:			
RPI Inflation	3.2%	3.6%	3.6%
CPI Inflation	2.2%	2.6%	2.6%
Pension increases in payment (CPI)	2.2%	2.6%	2.6%
Pension increases in payment (LPI)	2.2%	2.6%	2.6%
Salary increases	3.7%	4.1%	4.6%
Discount rate	3.2%	4.3%	4.3%

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		
	2015*	2014	2013	2015 £m	2014 £m	2013 £m
Equities	n/a	7.5%	7.0%	10.0	12.8	14.7
Diversified growth funds	n/a	6.8%	6.3%	6.6	5.7	5.6
Bonds	n/a	3.5%	3.0%	187.2	149.8	155.2
Cash	n/a	1.3%	0.4%	0.1	0.3	0.1
Emerging markets multi-asset funds	n/a	7.6%	6.3%	3.4	3.0	3.4
High yield bonds	n/a	6.3%	5.8%	3.7	3.5	3.3
Market value of section assets				211.0	175.1	182.3
Present value of liabilities				(164.6)	(147.1)	(148.3)
Surplus on FRS 17 basis				46.4	28.0	34.0
Amount not recognised due to asset recognition limit**				(32.3)	(16.8)	(20.7)
Recognised surplus in the section				14.1	11.2	13.3
Deferred tax at 20% (2013/14: 20% 2012/13: 23%)				(2.8)	(2.2)	(3.1)
Net pension asset on FRS 17 basis				11.3	9.0	10.2

The overall expected rate of return on assets was 4.0% per annum (2013/14: 3.6% 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 at 31 March 2014.

The actual return on the section's assets during the year was a gain of £39.8m (2013/14: a loss of £4m).

* Under the existing UK GAAP, pension interest income on pension assets and interest charge on pension obligation are calculated separately using expected rate of return and discount rate respectively. As mentioned in note 1; the Company adopts FRS 101 from 1 April 2015, which will require calculation of net pension charge/income by using discount rate on net pension surplus/liability, hence assumptions for the expected long-term rates of return over 2015/16 are not required.

** FRS 17 requires that the pension surplus should only be recognised to the extent that it can be recovered through reduced contributions in the future periods or refunds from the scheme.

23. RETIREMENT BENEFIT SURPLUS (continued)

Demographic assumptions

The mortality assumptions have been drawn from actuarial tables S2NA based on each member's year of birth with a 100% probability of members dying at each age per the standard tables, with future improvements in line with the CMI 2014 projections from 2007, with a long-term minimum rate of improvement of 1.5% per annum for males and 1.25% per annum for females.

For reference 31 March 2014 mortality assumptions were drawn from actuarial tables S1NA based on each member's year of birth with a 95% probability of members dying at each age per the standard tables, with future improvements in line with the CMI 2012 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.

The average life expectancy for a male pensioner currently aged 60 is 27.7 years (2013/14: 27.5 years) and for a female pensioner currently aged 60 is 29.6 years (2013/14: 29.8 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 30.6 years, whilst that for a female retiring at age 60, 25 years from the balance sheet date is assumed to have increased to 32.1 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 £2.5m; and
- a 25% fall in the value of the section's return seeking assets portfolio would decrease the surplus (before the consideration of any balance sheet limitation that might apply) by about £5.9m.

Contributions

Contributions paid in the year to the section including those from BWBSL were £2.7m (2013/14: £2.9m). Contributions paid in the year include £2.3m of regular employer contributions and £0.4m of additional contribution as described previously.

The £2.3m regular employer contributions include a deficit contribution of £0.4m and regular contributions for the main sub-section at 36.7% and for the alternative benefits sub-section at 24.9% of the relevant payroll costs.

Analysis of charges to Profit and Loss Account:

	2015 £m	2014 £m
Analysis of the amount charged to operating profit		
Current service cost under FRS 17	1.7	1.8
Total operating charge	1.7	1.8
	2015 £m	2014 £m
Analysis of the amount credited/(charged) to other finance cost		
Expected return on pension section assets	6.6	6.1
Interest on post-retirement liabilities	(6.2)	(6.3)
Net credit/(charge) to other finance cost	0.4	(0.2)

23. RETIREMENT BENEFIT SURPLUS (continued)

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)

Gain/(loss) on pension section assets	33.2	(10.1)
Experience gains arising on section liabilities	1.0	1.2
(Loss)/gain due to changes in assumptions underlying the FRS 17 value of the section's liabilities	(17.2)	2.0
Actuarial gain/(loss)	17.0	(6.9)
Adjustment for the effect of asset recognition limit	(15.4)	3.9
Actuarial loss/(gain) recognised in STRGL	1.6	(3.0)

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 £15.2m (2013/14: a gain of £1.9m).

	2015 £m	2014 £m
Movement in section pre-tax financial position during the year		
Surplus in section at 1 April	28.0	34.0
Movement in year:		
Current service cost (employee and employer)	(1.7)	(1.8)
Aggregate regular contributions (employee and employer)	2.3	2.5
Additional contributions	0.4	0.4
Credit/(Charge) to other finance cost	0.4	(0.2)
Actuarial gain/(loss)	17.0	(6.9)
Surplus in section at 31 March, before deducting amount not recognised due to asset recognition limit	46.4	28.0
Adjustment for the effect of asset recognition limit	(32.3)	(16.8)
Recognised surplus in the section	14.1	11.2

Movement in present value of the defined benefit obligation during the year

	2015 £m	2014 £m
Present value of section liabilities at 1 April	147.1	148.3
Movement in year:		
Current service cost (employee and employer)	1.7	1.8
Interest cost	6.2	6.3
Actuarial loss/(gain)	16.2	(3.2)
Benefits paid	(6.6)	(6.1)
Present value of the defined benefit obligation at 31 March	164.6	147.1

Movement in fair value of the section assets during the year

	2015 £m	2014 £m
Fair value of the section assets at 1 April	175.1	182.3
Movement in year:		
Expected return on section assets	6.6	6.1
Actuarial gain/(loss)	33.2	(10.1)
Aggregate regular contributions (employee and employer)	2.3	2.5
Additional contributions	0.4	0.4
Benefits paid	(6.6)	(6.1)
Fair value of the section assets at 31 March	211.0	175.1

23. RETIREMENT BENEFIT SURPLUS (continued)

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Market value of section assets	211.0	175.1	182.3	166.7	149.5
Present value of liabilities	(164.6)	(147.1)	(148.3)	(135.3)	(122.8)
Surplus in the section	46.4	28.0	34.0	31.4	26.7

	2015	2014	2013	2012	2011
Experience adjustments on scheme liabilities					
– Amount (£m)	1.0	1.2	0.9	(2.6)	2.2
– Percentage of scheme liabilities	1%	1%	1%	2%	2%
Experience adjustments on scheme assets					
– Amount (£m)	33.2	(10.1)	12.9	14.1	2.0
– Percentage of scheme assets	16%	6%	7%	8%	1%

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2015 £m	2014 £m
Operating profit	32.7	27.9
Depreciation, net of amortisation of deferred income	36.9	38.6
Difference between pension charges and normal contributions	(0.5)	(0.6)
Provision in respect of staff redundancies (note 18)	1.1	-
Cash flow from operations	70.2	65.9
Working capital movements -		
Stocks	-	-
Increase in debtors	(2.6)	(2.6)
Increase in creditors and other liabilities	1.3	3.5
Additional contributions to pension scheme	(0.4)	(0.4)
Net cash inflow from operating activities	68.5	66.4

24. SUPPLEMENTARY CASH FLOW INFORMATION (continued)

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

	2015 £m	2014 £m
(Decrease)/increase in cash in the year	(0.2)	7.5
Cash used to repay borrowings	50.3	16.1
Cash from new borrowings	(60.6)	(51.6)
Decrease in cash deposits in the year (note 11)	(2.0)	(7.5)
	(12.5)	(35.5)
Indexation of debt and amortisation of fees and premium not affecting cash flow	(3.7)	(4.7)
Interest rate swap movements not affecting cash flow	(0.6)	0.8
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	(292.3)	(252.9)
Net borrowings at 31 March including 8.75% irredeemable cumulative preference shares	(309.1)	(292.3)

(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	10.7	(0.2)	-	-	10.5
Cash deposits	2.0	(2.0)	-	-	-
Cash at bank and cash deposits	12.7	(2.2)	-	-	10.5
Borrowings due within one year	(0.4)	0.3	(0.3)	-	(0.4)
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares and net unamortised premiums in respect of loans	(303.4)	(10.6)	0.3	(3.7)	(317.4)
Fair value of the interest rate swaps	(1.2)	-	-	(0.6)	(1.8)
Net borrowings including 8.75% irredeemable cumulative preference shares	(292.3)	(12.5)	-	(4.3)	(309.1)

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

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, members of Itochu Corporation, and key management personnel.

The principal related parties are:

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

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

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

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

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.

25. RELATED PARTY TRANSACTIONS (continued)

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	
	2015 £m	2014 £m	2015 £m	2014 £m
Members of the BWHUK group				
BWHUK management charges	-	-	-	-
Members of the Agbar group				
Aqualogy Solutions and Technologies UK Limited	-	-	0.1	0.1
Aqualogy Environment Limited	-	-	0.6	0.5
Joint ventures of the BWHUK group				
BWBSL				
- management charges	-	-	2.9	2.6
- capital expenditure	-	-	0.1	0.3
- other recharges	-	-	0.4	0.5
Joint ventures of the Agbar group				
ASTS				
- management charges	-	-	0.8	1.4
- capital expenditure	-	-	0.3	0.7
- other	-	-	0.2	0.3
	-	-	5.4	6.4
	Amounts due from		Amounts due to	
	2015 £m	2014 £m	2015 £m	2014 £m
Joint ventures of the BWHUK group				
BWBSL	0.7	1.4	0.9	0.9
Joint ventures of the Agbar group				
ASTS	-	-	-	0.1
	0.7	1.4	0.9	1.0

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of the amounts due from related parties.

Remuneration of key management personnel

Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 65 to 70.

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent 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.

The Company is ultimately owned 50% by Capstone, 30% by Sociedad General de Aguas de Barcelona S.A. (Agbar) and 20% by Itochu Corporation, Japan.

The smallest and largest group in which this company is consolidated is Capstone Infrastructure Corporation and copies of its consolidated annual report are available from 155 Wellington Street West, Suite 2930 Toronto, ON M5V 3H1, Canada.

Independent auditors' report to the members of Bristol Water plc

Report on the financial statements

Our opinion

In our opinion, Bristol Water plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 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.

What we have audited

Bristol Water plc's financial statements comprise:

- the balance sheet as at 31 March 2015;
- the profit and loss account and statement of total recognised gains and losses for the year then ended;
- the cash flow statement for the year then ended;
- the reconciliation of movements in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach



Overall materiality: £1,070,000 (2014: £730,000) which represents 5% (2014: 5%) of profit before tax.

The company is structured as a single reporting unit and the audit was carried out by a single audit team.

Provision for impairment of domestic trade debtors.

Classification of expenditure on infrastructure assets.

Valuation of the pension scheme.

Accounting for restructuring provisions.

Assessment of going concern, following OFWAT's Final Determination of prices.

Overview

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><i>Provision for impairment of domestic trade debtors</i> Refer to page 50 of the Corporate Governance Report and note 10 of the financial statements.</p> <p>The recoverability of customer debts is always a key issue for water companies. It is very sensitive to changes in economic circumstances, and there has been some slowing down in cash collection rates in recent times across the industry.</p>	<p>We evaluated the model used to calculate the provision and confirmed its consistency with prior years.</p> <p>We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using historical cash collection trends from prior years and the latest available cash collection data for the current year. We also performed sensitivity analysis on the future cash collection rates by major customer category in order to identify the significance of the collection rates used on the overall value of the provision. We found that, consistent with prior years, the level of provision was within our expected range.</p>
<p><i>Classification of expenditure on infrastructure assets</i> Refer to page 50 of the Corporate Governance Report and note 7 of the financial statements.</p> <p>Expenditure on infrastructure assets is either capitalised as an addition to tangible assets or written off to the profit and loss account, depending on the nature of the work done. Given the size and complexity of the capital programme and how it relates to the company's assessed performance for regulatory purposes, the classification of expenditure requires very significant management judgement.</p>	<p>We tested a sample of expenditure on infrastructure items in the year to supporting documentation, such as contract certificates and invoices, and were satisfied that they had been classified in accordance with the company's accounting policies.</p>
<p><i>Valuation of the pension scheme</i> Refer to page 49 of the Corporate Governance Report and note 23 of the financial statements.</p> <p>We focused on this area because the defined benefit pension scheme surplus is material to the financial statements and is sensitive to a number of subjective assumptions such as discount rates, inflation and life expectancy.</p>	<p>We formed an independent expectation of the key pension valuation assumptions used, including the discount rate, inflation rate and life expectancy, compared them with those adopted by the company and found them to be in line with our expectations.</p> <p>We checked the accuracy of the data provided to the actuary by the company and used in their valuation, in particular the contributions paid by the company.</p> <p>We obtained third party confirmations of the valuation of the pension assets.</p> <p>We also obtained appropriate evidence for the competency and qualifications of the actuary who performed the valuation, and checked the information provided by the actuary to the financial statements.</p>
<p><i>Accounting for restructuring provisions</i> Refer to page 52 of the Corporate Governance Report and note 18 of the financial statements.</p> <p>The company announced a significant restructuring programme before the year end, which is expected to complete over the next year. The total restructuring provision held on the year-end balance sheet was £1.12m. The recognition of restructuring costs requires judgement to estimate the value and timing of net economic outflows and the extent to which the company is committed.</p>	<p>We obtained evidence that the restructuring programme was announced before the year end and that it included details of the number of employees impacted.</p> <p>We obtained the calculations supporting the restructuring provision, which included redundancy costs and the related pension costs of early retirement provisions. We tested the calculations by selecting a sample of employees and agreed their provision calculations to supporting documentation including payroll (for salary, age and numbers of years' service) and where applicable to the calculation of the related pension costs of early retirement provided by the company's actuary.</p> <p>We considered that the overall level of the provision established by management was reasonable.</p>
<p><i>Assessment of going concern, following OFWAT's Final Determination prices</i></p>	<p>We evaluated management's going concern</p>

Area of focus	How our audit addressed the area of focus
<p><i>Refer to pages 51 and 60 of the Corporate Governance Report and note 1 of the financial statements.</i></p> <p>In December 2014 Ofwat set final determinations of price limits and regulatory output requirements for the five year period 2015-20 for all water companies in England and Wales. Bristol Water rejected Ofwat's Final Determination, primarily on the grounds that price limits were too low for the outputs required. As required by the relevant legislation, Ofwat has referred Bristol Water's rejection to the Competition and Markets Authority ("CMA"). The CMA released Provisional Findings on 10 July 2015, but the Final Determination will not be available until September 2015. The outcome from the CMA has a significant impact on the cash flows and profitability of the company during 2015-20 and as such we considered its impact on the going concern of the company.</p>	<p>assessment by challenging the key judgements within the company's forecasts by comparing the forecasts to the outcomes of the provisional findings released by the CMA on 10 July 2015.</p> <p>We examined the company's funding agreements that are in place and performed a downside sensitivity analysis over the company's headroom assessment in respect of its liquidity and compliance with its funding covenants.</p> <p>We assessed the historical accuracy of budgets and forecasts by comparing prior year budgets to actual results.</p> <p>Our conclusion on the Directors' Going Concern Statement is set out below.</p>

How we tailored the audit scope

The company is structured as a single reporting unit and the audit was carried out by a single team.

In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,070,000 (2014: £730,000).
How we determined it	5% (2014: 5%) of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate. The benchmark used is consistent with last year's approach.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £54,000 (2014: £42,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 60, required for companies with a premium listing on the London Stock Exchange.

The directors have requested that we review the statement on going concern as if the company were a premium listed company. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the company's financial statements using the going concern basis of accounting. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

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

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

information in the Annual Report is: materially inconsistent with the information in the audited financial statements; or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or otherwise misleading.	We have no exceptions to report arising from this responsibility.
the statement given by the directors on page 44, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
the section of the Annual Report on pages 49 to 52, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinion on additional disclosures

Directors' Remuneration Report

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matter on which we have agreed to report by exception

Corporate governance statement

The company has chosen voluntarily to comply with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the company's compliance with the ten provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 45, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
24 July 2015

FINANCIAL HISTORY

PROFIT AND LOSS ACCOUNT

Years ended 31 March	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Turnover	132.8	123.9	114.2	108.0	100.7
Operating profit	32.7	27.9	26.9	24.5	18.6
Net interest payable and irredeemable preference share dividends	(11.6)	(12.8)	(11.5)	(13.4)	(11.0)
Profit/(loss) on sale of tangible assets	0.3	(0.6)	-	-	-
Profit before tax	21.4	14.5	15.4	11.1	7.6
Taxation	(7.6)	2.6	(2.3)	(3.9)	(0.8)
Profit after tax	13.8	17.1	13.1	7.2	6.8
Dividends paid	13.5	13.2	14.7	7.0	2.9

BALANCE SHEET

At 31 March	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Tangible assets	364.0	345.9	313.7	264.4	240.7
Other investments	68.5	68.5	68.5	68.5	68.5
Net current assets/(liabilities)	3.4	2.6	(4.9)	42.0	75.0
Total assets less current liabilities	435.9	417.0	377.3	374.9	384.2
Debt due after one year, excluding irredeemable preference shares	(306.7)	(292.1)	(250.9)	(246.9)	(257.3)
Irredeemable preference shares	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Provisions for liabilities	(27.3)	(21.3)	(26.0)	(24.7)	(22.3)
Deferred income	(7.8)	(8.3)	(8.8)	(9.3)	(9.8)
Retirement benefit surplus	11.3	9.0	10.2	9.0	7.6
Net assets	92.9	91.8	89.3	90.5	89.9

CASH FLOW

Years ended 31 March	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Cash flow from operations	68.5	66.4	59.4	55.8	49.0
Net interest and irredeemable preference share dividends paid	(8.3)	(7.8)	(6.6)	(6.9)	(5.8)
Corporation tax paid	(2.6)	(1.2)	(0.7)	(2.0)	(4.0)
Capital expenditure net of contributions	(56.6)	(79.7)	(79.8)	(44.7)	(20.4)
Other investing activities	-	-	20.3	26.5	(46.8)
Dividends paid on equity shares	(13.5)	(13.2)	(14.7)	(7.0)	(2.9)
Cash flow before management of liquid resources and financing	(12.5)	(35.5)	(22.1)	21.7	(30.9)
Management of liquid resources	2.0	7.5	34.7	(13.7)	(5.5)
Net increase/(decrease) in financing	10.3	35.5	(17.2)	(2.6)	37.0
(Decrease)/increase in cash	(0.2)	7.5	(4.6)	5.4	0.6

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.