BRISTOL WATER PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

Registered Number: 02662226

Welcome to our Annual Report and Financial Statements for the year ended 31 March 2018.

We provide approximately 1.2 million people in the city of Bristol and surrounding areas with clean, fresh drinking water every day, essential to the health and wellbeing of all the communities we are proud to serve.

Across our region, we are investing in the infrastructure that supports the economic growth of these communities, delivering a reliable supply and the excellent service and experiences that our customers have told us they want.

Our mission is to be a company that our communities trust and are proud of, to deliver excellent experiences and to create social and economic value.

What's in this report?

Our Annual Report, including the Financial Statements, aims to meet the information needs of our investors, lenders and partners to help them make informed decisions in respect of their interests in Bristol Water. We also recognise that this report will be read by a wide variety of other stakeholders including customers, suppliers, analysts, regulators and non-governmental organisations. Where we believe that a topic is relevant to understanding our business and material to a number of our stakeholder groups, we include it in this report and present it in a way which we believe is fair, balanced and understandable, particularly for our customers.

If you have any questions regarding the information in this report please get in touch with us at the details below:

Email: legal@bristolwater.co.uk
Tel: 0345 702 3797

Bristol Water plc
Bridgwater Road
Bristol
BS13 7AT

Contents

Chairman's welcome 3
Strategic Report 5
- Chief Executive Officer's update 6
- About us 9
  - Our history 9
  - Where we operate 9
  - Our industry and market 9
  - Our regulatory environment 9
  - *Case study: Willsbridge burst* 10
- How we create value 12
  - Our vision and mission 12
  - Our objectives 13
  - Our strategy 13
  - *Case study: Southern Resilience Scheme* 15
- Operational performance 17
  - Highly reliable 17
  - Excellent quality 19
  - Environmentally sustainable 21
  - Responsive to customers 24
  - Best people, right culture 28
  - Sustainable business 30
  - *Case Study: Clevedon incident* 32
- Financial Performance 34
  - Financial KPIs 34
  - Long term viability 38
  - Risk and uncertainty 42
  - Outlook 56
  - *Case study: Freeze thaw* 56
- Corporate responsibility 58
  - Customers 59
  - Environment 65
  - Community 67
  - Employees 67
  - Suppliers 70

Corporate Governance 72
- Introduction 72
- Board of Directors 73
- Ownership and Corporate structure 75
- Corporate Governance Report 79
- Nomination Committee Report 86
- Audit and Risk Assurance Committee Report 88
- PR19 Subcommittee Report 94
- Directors' Remuneration Report 95
- Directors' Report 109
- Statement of Directors' Responsibilities 113

Financial Statements 114
- Income Statement 114
- Statement of comprehensive income 114
- Statement of financial position 115
- Statement of changes in equity 116
- Cash flow statement 117
- Notes to the financial statements 118
- Independent auditors' report 151

Glossary of Acronyms 157

CHAIRMAN'S WELCOME

Bristol Water is on a journey to transform itself. Building on our excellent position of trust with our local communities and customers, we want to be regarded as a leading organisation known to excel at customer service and experiences in an innovative and efficient way.

We already have a strong relationship with our customers. The latest national customer satisfaction survey published by the Institute of Customer Service in January 2018 (UK Customer Satisfaction Index ("UKCSI"), Utilities Sector Report) placed us as the best performing water company, third place amongst all utility companies, and joint first place in the 'recommend' category. I am pleased that our desire to deliver for our customers has been recognised in this way.

Improving resilience was a key customer requirement for our capital investment programme of this price review period. During the year we have completed the Southern Resilience Scheme to improve water supply reliability and security to around 280,000 customers. This scheme will ensure that we will meet the needs of a growing population in our supply area for years to come. We completed this 30 kilometre highly complex cross-country pipeline project in record time and on schedule, a testament to our core technical capability in managing our network assets.

February 2018 saw the launch of 'Bristol Water... Clearly' which sets out the long term ambition for our water services, local communities and the environment over the next 30 years to 2050. 'Bristol Water... Clearly' builds on the foundation of trust and resilient supply, and highlights our mission to be a company that our communities trust and are proud of, and to deliver excellent experiences and create economic and social value.

The water industry is well underway preparing for the next regulatory price review and our business plan will continue to deliver improvements for our customers that are good value for money, in line with our strategy. The four core goals of the price review that we focus on are:

- To provide our customers with a great service and experience through channels they can engage and connect with.
- Keep bills affordable, with a view to maintaining cost efficiency.
- Improve resilience by assessing a wide range of options for securing water supplies.
- Innovation, which will help deliver customer service, affordable bills and resilience in a long term frame work.

Ofwat's final methodology for the next price review, includes a new customer satisfaction measure. Customer Measure of Experience (CMEX) will be broader than current metrics and take into account our reputation and wider community perception as well as customer service. Bristol Water has always had a strong connection with its community, and we have work planned to further enhance this experience.

The year under review involved a number of changes to build for the future, in particular, we welcomed Mel Karam as Chief Executive Officer (CEO) in April 2017. Mel has over 30 years of experience in asset management and capital delivery in both the water and wider utility industries. Mel escalated Health and Safety awareness, bringing it to the forefront of Bristol Water's agenda. He has also championed our successes where we have been innovative and industry leaders. We have been shortlisted as a finalist for the Water Industry Achievement Awards with our project on Resilient and Dynamically Adaptive Water Distribution Networks for a Sustainable Future, in the category of "Water Resilience Initiative of the Year".

We have seen a number of changes to the Board during the year. Rob Davis retired in November 2017, having served for 9 years as an Independent Non-Executive Director. Also in November, we announced that Mick Axtell, our Chief Financial Officer, would be leaving after five years, to take up a role with Bristol University and we have agreed that he will leave the Company in July 2018. After 7 years as a Non-Executive, Michael Smerdon stepped down from the Board in February 2018 to focus on his role with iCON Infrastructure in North America.

CHAIRMAN'S WELCOME (continued)

In June 2018, Tony Hemus and Tracey Wood, both Independent Non-Executive Directors, resigned from the Board. They all made a valuable contribution to Bristol Water and I wish them all well for the future.

Finally, I was delighted to welcome Paul Francis to the Board in June 2018, as an Independent Non-Executive Director and Chair of the Audit and Risk Committee.

Looking forward to the year ahead, we continue to work hard to improve the service offering and finding efficient ways to develop every facet of the business to maintain our robust, ambitious plan. I would like to close by thanking the hard working staff of Bristol Water whose determination and community spirit enables us to deliver our objectives for our customers.

Keith Ludeman
Chairman
13 July 2018

STRATEGIC REPORT

The strategic report details our performance over the past year and how it has been achieved in line with our business model and strategy.

Chief Executive Officer's update	6
About us	9
Our history	9
Where we operate	9
Our industry and market	9
Our regulatory environment	9
Case study: Willsbridge burst	10
How we create value	12
Our vision and mission	12
Our objectives	13
Our strategy	13
Case study: Southern Resilience Scheme	15
Operational performance	17
Highly reliable	17
Excellent quality	19
Environmentally sustainable	21
Responsive to customers	24
Best people, right culture	28
Sustainable business	30
Case Study: Clevedon incident	32
Financial Performance	34
Financial KPIs	34
Long term viability	38
Risk and uncertainty	42
Outlook	56
Case study: Freeze thaw	56
Corporate responsibility	58
Customers	59
Environment	65
Community	67
Employees	67
Suppliers	70

STRATEGIC REPORT (continued)

Chief Executive Officer's Update

As we have reached the end of this financial year I am able to reflect on my one year anniversary as CEO in April. I am pleased to look back on a full year of building for a strong future; the new management structure, with iCON Infrastructure embedded as the main shareholder, has provided us with renewed focus and a solid foundation.

Improving resilience remains a key focus. I am pleased to recognise success in this area with the completion of the Southern Resilience Scheme (SRS); which was managed on time and on budget. The complex technical project faced many engineering and environmental challenges but the success of the scheme demonstrates the level of expertise and dedication we have within our business. Please see page 15 for more information about this critical scheme. We have been able to use our biodiversity index metric to ensure that the scheme has had a positive impact on the environment overall, demonstrating our commitment to enhancing the local community and environment.

Operationally we have seen challenges; in particular the burst main in July at Willsbridge was the biggest in our recent company history. Despite the seriousness of the operational issue, we were recognised by our customers for our swift action both in providing alternative water supplies and the speed in which we were able to rectify the problem and return the supply to affected areas. We were also praised by our customers for our engagement with them during the incident, especially for our use of social media in providing real-time responses to questions.

Then, in January, we dealt with a sample which was found to contain cryptosporidium oocysts which led to the temporary closure of our treatment works at Clevedon and the introduction of a precautionary boil water notice to around 7,000 properties. As at Willsbridge, we took swift action to ensure the wellbeing of our customers, hand delivering notices to all affected properties and undertaking an intensive media campaign to get advice to the communities as widely and rapidly as possible.

We recognise the impact water outages have on our customers and are ensuring we learn from incidents like these. You can find out more about the Willsbridge burst and the Clevedon cryptosporidium sample on pages 10 and 32 respectively. In early March we also had to cope with a spell of severe weather which saw pipe bursts increase dramatically across our network and at our customers' properties. I'm pleased to say that we responded well and our staff worked exceptionally hard to overcome extremely challenging circumstances and to prevent serious disruption to our water supplies, you can read further details on page 56.

We continue to seek new and innovative ways of speaking with our customers. We have launched technical improvements such as 'live chat' as well as hosting several engagement workshops with customers and our communities. We have made increased efforts to engage with local stakeholders including the West of England Mayor, the Local Enterprise Partnership, the Confederation of British Industry and local businesses represented by Business West. We've used these contacts to discuss our future plans and strategy and to play our part in the wider conversations around resource and resource efficiency across the West of England.

The year under review was one in which our performance targets were tougher than in previous years. We beat our target to minimise the number of people contacting us to complain about water quality ("negative water quality contacts") and reduced the number of properties at risk of a single failure in our network. Despite increased efforts we fell short of achieving our targets for reducing leakage and increasing the number of properties with a water meter. Also, incidents like Willsbridge led to us missing our target for unplanned minutes without a water supply, as well as having a negative impact on our Service Incentive Measure (SIM), Ofwat's measure of customer service. However the foundations we have laid this year, put us in a good position for the coming year.

STRATEGIC REPORT (continued)

The past year has seen Bristol Water further develop its customer initiatives; working with the local community we have been industry leaders in water efficiency and innovation initiatives. We have won awards for our Water Bar and Refill fountains and we will build on this success by expanding the concept with more fountains and by appearing at more events.

The emphasis we have placed on the customer has not gone unnoticed. In February we received the news that the UKCSI had placed us higher than any other water company and in third position of all utilities for customer service in the UK.

We launched 'Bristol Water...Clearly' in February; a consultation document which sets out our aims and ambitions for the coming 30 years. We want to be known for excelling at customer experience, providing local community resilience and a safe and reliable supply, and we want to continue to be a company that our community trusts and are proud of. I look forward to using the consultation's feedback to refine our plans and bring these key themes to life.

I'm pleased to report that our EBITDA increased by £0.6m to £51.4m, we did however see a decrease in profit after tax of £8.2m to £11.8m due to an impairment charge relating to planning and investigation costs of a new reservoir in Cheddar which is no longer being progressed as well as higher interest charges and a higher corporation tax charge. These costs were partially offset by proceeds from the sale of the non-household customer book.

We place a strong focus on the health, safety and wellbeing of our staff, contractors and public. Health & Safety remains our number one priority and we continue on the journey towards zero injuries. The message is loud and clear from the top of the organisation, Health & Safety underpins everything we do and must be inherent in our culture. To this end, we launched an internal campaign 'Take 5 for Safety' to bolster our safety messages to all staff and we work with our contractors to ensure we are aligned at all levels.

Our people are critical; they make us who we are. This year we placed an increased emphasis on listening to our people by providing various platforms for them to voice their thoughts and feedback. We've held company wide staff briefings and internal consultations, and we carried out an Employee Engagement Survey. The survey went to all of our people and asked for feedback across a spectrum of areas. With an above benchmark response rate, we received comments across a number of metrics. We have actively used the findings to shape our future plans and to be better at what we do and how we do it.

We will, of course, be focussing on the regulatory price control, PR19 (periodic review 2019); our business plan is taking shape and work is progressing at speed. In March we published our draft Water Resource Management Plan for consultation, setting out our long term (25 years) plans for managing our precious water resources to meet customer demands and to protect the environment. Feedback from key stakeholders has been very positive. Then, in April, we published our draft Business Plan for customer consultation. The plan sets out what we've heard from our customers so far, seeks their views on our future plans as well as asking for feedback on important issues such as customer service and leakage. The draft plan is available on our website at: http://www.bristolwater.co.uk/about-us/strategic-objectives/trust-beyond-water/.

Our draft business plan, alongside the publication of our mid-year performance report in November 2017, sets new standards for customer engagement and transparency and has seen significant publicity in the utility trade press, in local media and through our use of social media. We approach the submission of our business plan to Ofwat in September 2018 with a plan grounded in what our customers and stakeholders expect us to deliver. We took a major step forward in improving the transparency on our performance, a key Ofwat expectation to improve our 'prescribed' status on regulatory processes, including with our commitment that we will not benefit from technical changes in leakage performance. This is an industry issue on which Bristol Water has taken the lead, maintaining the trust of customers and stakeholders in everything we do.

STRATEGIC REPORT (continued)

We have received extensive engagement from our Board on our plans, governance and process. We formed a sub-committee of the Board, specifically tasked with reviewing our work on the price review, and they have met on a monthly basis to check and challenge our methods. In addition, we continue to be guided by the independent Bristol Water Challenge Panel, led by Peaches Golding OBE, and have used them to seek customer views and feedback. We have made a concerted effort to engage with the local community and the Challenge Panel to evidence our work and aid us in establishing our core themes for the business plan.

In summary, I feel incredibly proud of Bristol Water and our achievements. I am consistently impressed by the company's customer service culture and the dedication of its staff. My first year has seen some structural changes, designed to reinforce our capabilities and to transform the way we work to gear us up for success in the years ahead.

Mel Karam
Chief Executive Officer
13 July 2018

STRATEGIC REPORT (continued)

About us

Our history
When Bristol Water was formed in 1846 under an Act of Parliament, its founders had a ground-breaking and ambitious aim to bring fresh, clean drinking water to the city, essential to the health and wellbeing of all communities and not just for the wealthy few. We continue with their vision that beyond providing water supplies, there remains a social enterprise doing what it can for all the communities it serves. Today, clean and reliable water has become a cornerstone to modern society and we proudly continue to supply water to those who rely on us to provide an essential service every day.

Companies that want to be around for the decades to come must ensure that society and the environment are at the heart of everything they do. Over our long history, we have gained the trust of our customers as we have remained true to our original roots; to break new ground, and to be ambitious, in finding better ways to plan for the future and to respond to our customers' expectations, changing societal and environmental needs, and the needs of future generations.

Where we operate
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.

Our industry and market
We are one of the regulated companies in England and Wales who distribute water. We focus exclusively on water, not wastewater, in our supply area wastewater services are provided by Wessex Water. To make it easier for our customers and to provide an efficient service, we set up Bristol Wessex Billing Services Limited ("BWBSL") which now operates under the brand name Pelican Business Services ("Pelican") and this means our customers receive a single bill to cover both services. A second joint operation undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited has more recently been set up, Water 2 Business Limited ("W2B"), to provide water and sewerage services in the new non-household retail market. In April 2017 we sold our retail business customer book to W2B, but remain as the water wholesaler within our supply area.

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

- Further the consumer objective to protect the interests of consumers, wherever appropriate by promoting effective competition
- Secure that water companies (meaning water and sewerage undertakers) properly carry out their statutory functions
- Secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions
- Secure that water supply licensees and sewerage licensees properly carry out their licensed activities and statutory functions
- Further the resilience objective to secure the long-term resilience of water companies' water supply and wastewater systems; and secure that they take steps to enable them, in the long term, to meet the need for water supplies and wastewater services

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

STRATEGIC REPORT (continued)

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

Case Study: Willsbridge Burst

Tuesday 18 - Thursday 20 July 2017

The Incident

- Bristol Water identified increased flows through a flow meter at 11.30pm on 18 July and started receiving customer calls about loss of water at 1.16am on 19 July.
- Bristol Water crews arrived in Willsbridge, on the outskirts of Bristol, to discover large amounts of surface water with complicating site factors.
- The South Bristol Ring Main, which transports water between North and South Bristol, had to be isolated to allow the cause to be safely investigated.
- The cause of the incident - a burst main in Willsbridge - was confirmed within an hour of the initial reports. It was unique to the site and appears to have been the result of ground movement and the complex pipework at the pumping station.
- The Willsbridge site was made safe by 2.30pm on 19 July, which allowed re-routing of supplies for other customers to start. Supplies were restored to customers without the burst being fixed.
- 35,000 properties lost supplies because of the burst, but the Ring Main and the re-routing of water meant only 14,000 were without water by 7am on 19 July.
- 8,000 further properties had supplies restored around 10pm on 19 July with the remainder by 5.30am on 20 July.

Customer Support

- Customer contacts peaked between 7am - 8am on 19 July at 968 calls.
- A second call centre to manage the volume of calls was opened at 6am on 19 July.
- Bottled water was delivered to customers requiring additional support from 7am.
- At just after 7.30am, all other affected customers with registered mobile numbers received details of the incident.
- Five temporary water supply locations, each with a number of water bowsers, were set up from 11.30am to mid-afternoon on 19 July. The bowsers were frequently replenished to allow customers to take as much water as they needed.
- These were staffed by Bristol Water employees, who gave customer updates.

Operational Response

- By 2am on 19 July, a major incident response had been launched.
- Key agencies and stakeholders were notified overnight as the situation and response were assessed.
- Proximity of gas mains, power cables, hazardous weather conditions (lightning strikes) and surface water added complexity to the incident, requiring close collaboration with other utility providers.
- By the morning of 19 July, Bristol Water had fully engaged all remaining stakeholders, which included a status call by early evening.

STRATEGIC REPORT (continued)

- Final update on the incident was cascaded to agency partners and stakeholders shortly after 9am on 20 July.
- The incident was formally closed at about 2.30pm on 20 July

Customer Satisfaction

- A recent customer survey included some who were affected by the burst.
- Of those affected surveyed, 62% were very or fairly satisfied, with how the burst was handled.
- Together with social and other media views, generally customers were satisfied with our response and most accepted that such events may occasionally happen. But, we recognise there is always room to improve communication and response.

Customer Communications

- The Communications Team was quick to respond.
- Updates to the Bristol Water corporate site, social media channels and the employee intranet were made by 3am on 19 July.
- Three members of the Comms team on 'incident alert' for 24 hours to allow social media channels to be effectively monitored and customer interactions proactively managed.

Summary and Learnings

- The Willsbridge burst was a complex repair, hampered by challenging weather conditions and complicating site factors.
- Around 70 people were involved in response to the incident.
- Water was restored to 35,000 properties within 29 hours of the initial reports.
- More than 6,995 customers received support from contact centre staff or through social media.
- Despite the overall operational success and customer satisfaction, Bristol Water was able to draw four learnings from the experience:

1. More focus could be given to the impact of operational decisions on customers when restoring supplies and cascaded more effectively to further increase satisfaction.
2. Stakeholders were informed of the incident, but the process for doing this could be improved further.
3. Review processes to improve timing and accuracy of all customer communication channels, so that accurate information can be kept flowing, even when there is no significant update. In this type of scenario, customers are keen to know about how we mobilise in response and who is involved, not just information about their water supplies.
4. The incident will inform our review of how alternative water supplies are provided.

STRATEGIC REPORT (continued)

How we create value

Our vision and mission

In February 2018 we published "Bristol Water...Clearly", our long-term ambition for excellent community water experiences.

Figure 1: Bristol Water... Clearly - our long term ambition

Bristol Water...Clearly set out our vision "Trust beyond water – providing excellent customer experiences". Trust beyond water reflects the expectations of our customers and stakeholders and delivers beyond the product we supply. It reflects our mission to be "a company that our communities trust and are proud of. To deliver excellent experiences and create social and economic value."

We already work closely in collaboration with local communities, businesses and stakeholders. We are well placed to continue to build on these relationships to meet the current and future needs of our customers, stakeholders and the environment, fulfilling a role well beyond the basic provision of water.

Our updated vision and long-term ambition reflects that much has changed since we last published our vision "Water in the future" in December 2012:

- Through innovation and continuous improvement, we have taken major steps to cut our costs and become more efficient. We place a great emphasis on cost control and working efficiently as this is one of the ways that helps us to keep bills affordable.
- At PR14 we set ourselves challenging leakage targets; to reduce leakage by 12% between 2015 and 2020.. We plan to continue to focus on reducing leakage and promoting water efficiency to balance water supply and demand – we no longer believe we will need to develop major new water resource schemes for the foreseeable future.
- We have ensured that the largest communities we serve can now be supplied from more than one source, through the completion of our major supply resilience scheme.

Some things haven't changed:

- We still have excellent water quality and customer services.
- Through our partnership work in the catchments and reservoirs where our water comes from, we help to improve the natural environment for water supply and for our communities to enjoy. As a result, our water quality remains top quality.
- We are still based in Bristol and play an active role in society and the local business community of the area which we serve.

STRATEGIC REPORT (continued)

Read the full Bristol Water... Clearly document here: http://www.bristolwater.co.uk/wp/wp-content/uploads/2018/02/BW_Strategy-document_digital-version_1.1.pdf

In March 2018 we published our draft Water Resource Management Plan 2019. Our plan takes account of all statutory drinking water quality obligations and plans to meet all drinking water quality legislation. As part of our new strategy, the plan sets out that we no longer need to build a new reservoir at Cheddar in the foreseeable future. The small gap that we have projected between supply and demand, which is based on planning for the worst expected drought which is only expected to occur no more than once every 500 years, can be addressed before 2034 by innovative measures to reduce leakage and water demand.

Our objectives

As noted in the Chairman's Welcome, Bristol Water is on a journey to transform itself and this is an exciting time. We have set ourselves four strategic objectives which reflect our corporate priorities and the expectations of our customers and stakeholders. Through our objectives and outcomes we will play our part in meeting the future challenges which society and the environment faces.

1. **Excel at Customer Experience**
   Building trust and achieving customer excellence needs to continue. This is a key priority.

2. **Develop our people and our business**
   Our employees and delivery partners are key to our strategy – they are the source of our customer excellence and innovation. Customer excellence means we need to be ready for the future shape of utilities that provide services that customers want (potentially not just water), rather than just a product.

3. **Being trusted**
   The subject of our reputation runs through the entirety of our strategy and supports all the other strategic objectives. It is not only about maintaining legitimacy with customers, consumers, communities and other stakeholders, but also about them having trust in our stewardship of the long-term sustainability and resilience of Bristol Water and our local environment.

4. **Leading Efficiency**
   We are committed to transforming our cost base. As we work towards service excellence and to deliver our strategy, we are determined to find efficient methods so we never compromise our commitment to affordable bills.

In the long-term, our business objectives and the outcomes we're working to deliver have to align, and our strategy sets out how we plan to achieve this.

Our strategy

In order to deliver our objectives and realise our vision, we have developed the following strategic themes:

Providing excellent customer experiences

We expect to see changes in the way water services are provided and want to play a leading role to ensure that they happen. Providing customer excellence will need to transform over time into customer choice around the services they receive. In the long term, we are ambitious to lead the sector in customer excellence and grow our business, particularly as we expect that market developments will help to deliver the best value for customers.

STRATEGIC REPORT (continued)

Choice may be over retailer (a choice business customers already have), but most important is choice over how services are received and how customers engage with them. Bristol Water may be enduring, but that doesn't mean we don't welcome and shape change.

We want our bills to be affordable for all of our customers, both now and in the future. One of our key commitments is to continue to proactively support our vulnerable customers in every aspect of our business from doubling the number of customers who are registered for our Priority Services Register to working with debt advice partners to help those struggling financially.

We will put customers at the centre of our strategic asset planning decisions by linking our geographic network location to our customers and their needs. We are also going to overhaul our use of data to respond faster to customers through multiple communication channels. You can read our full consultation on our plans at https://www.bristolwater.co.uk/wp/wp-content/uploads/2018/04/BW-Business-plan-doc-2018_final_1.2.pdf.

Investing in innovation and technology
We believe that as a small agile Water Only Company ("WOC") we can apply innovative ideas and technologies to set ourselves apart from other businesses.

Innovation in community excellence and partnership working is already a key part of our vision of "trust beyond water". Our part in the Refill Bristol campaign and providing public access to drinking water fountains has been recognised and the wider water industry is working with the Government to expand such initiatives nationally. We are going to build on these ideas to develop cross-utility service offerings that connect with customers and communities.

We will invest in a wide range of technologies to continually improve the efficiency with which we operate our business and the quality of the service we offer to our customers. We have identified a number of opportunities including a self-service portal to developers, improving the content on our bills and ensuring our people have the tools they need to provide great customer care through every channel. We also invest in data and technology to ensure we target our investment to where there will be the most benefit. One exciting area of development is our use of robotics which automates routine tasks to improve consistency and efficiency.

Embracing partnerships and collaboration
We know that as a small business it is sometimes beneficial to develop and build long term partnerships and we're going to continue with this strategy to bring wider benefits to our business and local communities. We want to collaborate with other Water companies to optimise the way we share our water resources and are working closely with Wessex to boost resilience through flexible use of these resources.

We will also work with other utility companies and the councils to reduce the impact that roadworks have on traffic disruption in our supply area, and form partnerships with other local companies and stakeholders to work together to reduce wastage of resources, including water, energy and materials such as plastics.

We will continue to work with farmers and landholders in the catchment areas of our water sources, providing support and investment to reduce the risk of water pollution, helping landholders to provide water protection beyond their own legal obligations.

The close relationships we have built with our communities give us unique opportunities, with the potential to link into smart city partnerships and innovations. Bristol and surrounding areas is becoming a hub for testing new ideas and for collaboration with research institutions and businesses at the forefront of new technology.

STRATEGIC REPORT (continued)

Providing Resilience

We take a long-term view on the resilience of our assets, building on the benefits we provide as an innovative, local water company with long-term investors who help us to be efficient in how services are financed. We are applying world class asset management processes to ensure every pound spent achieves the greatest return. We plan to invest to mitigate any key risks relating to our 'critical assets'. This includes laying additional pipe so that all major population centres have a backup supply, in case there is an issue with the usual source.

We will replace existing sections of our network, fix leaks quicker and find and fix more of the smaller leaks which are not visible above ground. We will also increase our monitoring of our network to help us to find leaks earlier, as well as reducing pressure in locations where this will not have an adverse impact on our customers.

Like innovation, resilience is a key theme found throughout all our plans. In March we completed a major resilience scheme which ensures that we can use multiple water sources to reach an additional 280,000 customers giving us far greater flexibility and resilience should we experience operational difficulties (read more about the SRS in the section below). However, resilience does not only apply to the supply of water, each of our outcomes and objectives helps to deliver different elements of resilience across the whole of our business: operational, service, financial and corporate.

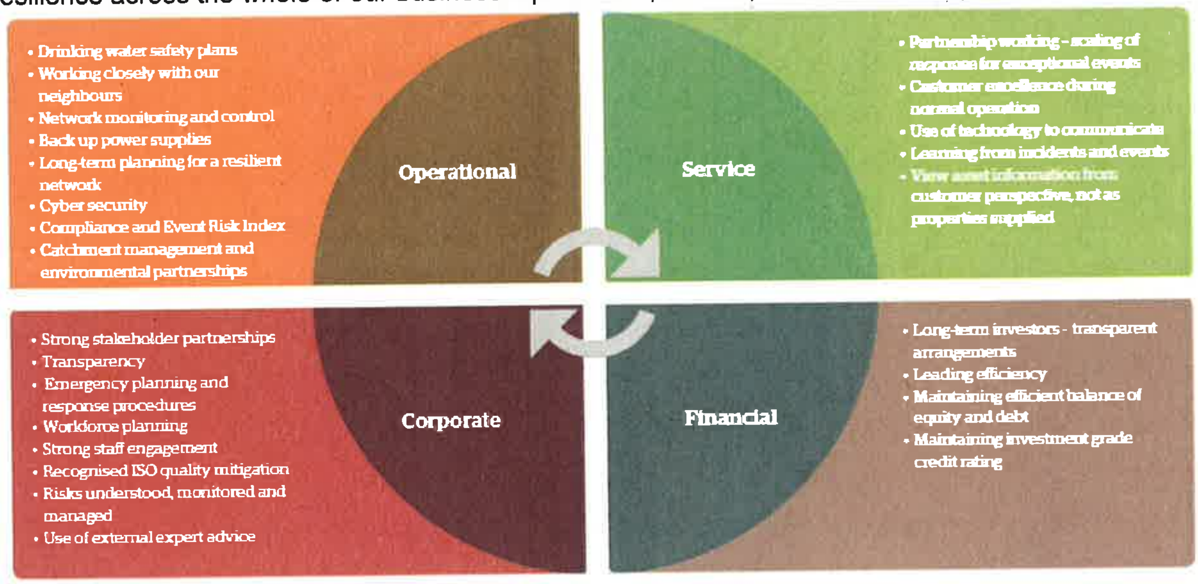


Figure 2: Embedding resilience across our business

Case Study: Southern Resilience Scheme

What is it? The Southern Resilience Scheme is a new, £27 million water infrastructure project that provides improved security of supply to over 280,000 customers across our supply area including Weston-Super-Mare, Cheddar, Burnham and the Northern part of Bristol. This gives us increased flexibility and allows us to move water from northern sources into our southern region in the event of a loss of supply, or water back up to Bristol if we lose our northern supply.

Why we did it? The population of Somerset and North Somerset is expected to grow by over 100,000 people by 2030, making it one of Europe's fastest growing areas. This new pipeline will help make sure we can keep up with this massive increase in demand. We will also be able to get water to areas such as Cheddar, Banwell, Burnham and Weston-super-Mare through more than one route, providing greater options for getting water to our customers.

STRATEGIC REPORT (continued)

Facts and figures:

- £27 million
- 280,000 people with a more secure water supply
- 30,000 metres of main pipe laid
- Over 30 archaeological digs have taken place
- Nearly 100 people worked on the project
- Completed on time and on budget

Environmental impact: During the project we worked with Natural England and North Somerset Council on measures to prevent bats from roosting in tunnels while work was being undertaken. Unfortunately, these measures were not successful. The Strawberry Line (a disused railway line) and tunnel habitats are important sites for bats and many other species of flora and fauna. Once bats had been discovered, we suspended work and, working under a licence from Natural England, we provided alternative roosting boxes and changed our schedules to fit our work around the hibernation period. We take our responsibilities to the natural environment extremely seriously and always endeavour to minimise any impact. In fact, we seek to leave any environment in which we work in a condition that is as good, if not better, as when work began and we have developed a Biodiversity Index (see page 24) to measure how well we achieve this.

As well as bats, the tunnel also provides an ideal habitat for cave spiders whose welfare also needs to be considered. Once we had identified the most prominent locations of these spiders we protected them with ventilated shuttering providing a safe and comfortable home until we had finished our work.

It's not just animals we look after. There are some quite rare examples of mineral formations forming stalagmites and stalactites in the tunnel. Keen to protect this heritage, we implemented protection measures where the most significant examples have been enclosed in timber shutters during the construction programme.

Figure 3: The route of the Southern Resilience Scheme

STRATEGIC REPORT (continued)

OPERATIONAL PERFORMANCE

Aims and Outcomes

In our report, we have mentioned the transformation that we are currently going through, we have shared our vision and objectives and set out the strategies we are employing to help us achieve our aims. As we have explained, this new vision builds on the platform we had previously established and in this section of our report, as we look back at our performance, it is vital to measure ourselves against the targets we set for this period. In 2014 we published a business plan setting out our priorities for 2015-20. This included a number of key aims, and the outcomes that we want to deliver for our customers and stakeholders during this period.

Figure 4: Bristol Water's Aims and Outcomes for the period 2015 - 2020

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

Outcome	Performance Commitment	2017/18 Target	2017/18 Actual	2016/17 Actual
Reliable supply	**Unplanned customer minutes lost** Minutes per customer	12.8	73.7	13.1
	Reliability of below ground assets Improving/ Stable/ Marginal/ Deteriorating	Stable	Marginal	Stable
	Reliability of above ground assets Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
Resilient supply	**Population at risk from asset failure due to an extreme event** Number of people	9,063	9,063	288,589
Sufficient supply	**Security of supply index** Number	100	100	100
	Hosepipe ban frequency Return period (1 in 'X' years)	10.2	3.1	3.1

STRATEGIC REPORT (continued)

Reliable supply

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

Despite the fact that we receive high levels of satisfaction and praise from customers in how we manage bursts, we are highly incentivised to reduce the time people are without water and are continually focusing on initiatives to improve. In 2017/18 we have continued to focus on performance and maintaining our asset reliability as 'stable' for both above and below ground asset groups. Burst numbers up to month 11 of the reporting year remained at a similar levels 2016/17. However as a result of the adverse weather conditions during late February/early March (see page 56) a significant impact on the outbreak of burst mains was seen in a relatively short period. This resulted in over 250 burst mains in March 2018, of which more than 70% occurred in the first week alone. As a comparison, the 5-year average for burst mains in the month of March is 68. The total number of burst mains for 2017/18 is 1,257. If we adjust to remove the effect of the extreme weather, we see only a marginal increase in the level of mains bursts from the prior year.

Without these additional bursts due to the severe weather, mains bursts would have been at a similar level to last year and within the control limit used to indicate asset health. However, we report a "marginal" performance on mains bursts because of the severe weather.

Despite the high number of bursts during the year, the vast majority of interruptions from these bursts was avoided through a number of mitigating actions such as live repairs and rezoning. Our unplanned customer minutes lost performance for the year has however been adversely affected by two major burst events in Sea Mills and Willsbridge that has led to us missing our annual performance target.

Resilient supply

A resilient supply means that we are able to cope with extreme or unusual events, and this is measured by the number of people at risk from the failure of a single source above ground asset (in supply areas of more than 25,000 consumers). Improving resilience was one of the key outputs for the capital investment programme of AMP5 and continues to be a key output in AMP6.
As part of our AMP6 programme, we have reduced the number of customers at risk from 288,589 to 9,063, by undertaking a major scheme to construct 30 kilometres of new mains to reinforce and support our southern supply area. Site works started in September 2016 and pipe-laying commenced in December 2016. After installing 7.1 km of pipe in 2016/17, the remaining 23 km of pipe was installed during 2017/18 despite some very challenging circumstances. In addition to the pipe installation, a new pumping station was constructed and commissioned at Cheddar Treatment Works. The full project was completed on 30 March 2018. This was an immensely complex and challenging project with an extensive stakeholder engagement programme to ensure amongst other things, that environmental issues were addressed and impact to the local area and customers was mitigated.

Sufficient supply

One of our customers' most important requirements is an unrestricted water supply. Our performance of this is measured by our level of service on the frequency of supply restrictions during periods of water shortages, and Ofwat's Security of Supply Index (SOSI). SOSI is the ratio of water available, plus regulatory headroom, to the forecasted dry weather water demand for the outturn year. If a score of less than 100% is calculated, this would indicate that there could have been a higher risk of water use restrictions for our customers that year. We are pleased that for 2017/18 our SOSI value was 100%, indicating sufficient supply with no restrictions. It has been 28 years since we last introduced a hose pipe ban, and despite periods of low rainfall in the spring and autumn of 2017/18, our combined reservoir storage had reached 99.8% by the end of March 2018.

STRATEGIC REPORT (continued)

EXCELLENT QUALITY - Our water consistently achieves exceptionally high compliance against some of the most rigorous testing standards in the world

Outcome	Performance Commitment	2017/18 Target	2017/18 Actual	2016/17 Actual
Safe drinking water	Percentage compliance with legal standards	100%	99.93%	99.97%
Water is good to drink	Number of negative customer contacts regarding water quality	2,322	1,711	2,162

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

Safe drinking water
Our aim is to supply our customers with clear water and comply with stringent regulatory standards. We do this through our Drinking Water Safety Plan (DWSP) approach, which helps us to reduce and manage any risks to water quality.

Our Water Quality team collects samples 365 days a year from across our 2,400 square kilometre supply area. 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 on a calendar year basis by DWI Standards: Mean Zonal Compliance (MZC).

During 2017 our random compliance sampling at customers' properties identified four nickel failures associated with internal plumbing deficiencies (nickel is used in the chromium plating process for taps and can leach into the water supply). Although these failures were solely attributable to customers' plumbing issues, they had the effect of reducing our MZC figure from 99.97% down to 99.93%.

In 2017, none of the 3,593 compliance samples taken at treatment works was found to contain coliforms, a type of bacteria. This equates to zero non-compliance.

Routine compliance samples for bacteriological analysis are taken at the outlet of each of our treated water service reservoirs every week. Out of the 7,966 samples taken, only 2 were found to contain coliforms. This equates to a compliance of 99.97%.

MZC has been replaced by the Compliance Risk Index (CRI) as the key measure of industry water quality performance. CRI considers the relative significance to consumers of the individual water quality parameters and if these were avoidable by company action. In 2017 we achieved our record low score of 0.032 on CRI.

During 2017, no DWI Enforcements Orders were served associated with bacteriological quality at treatment works.

STRATEGIC REPORT (continued)

Clevedon Incident
Whilst the figures for Calendar Year 2018 are not yet known, a sample of the Clevedon Treatment Works raw water taken on the 8th January 2018 was found to contain Cryptosporidium Oocysts. As a precaution Clevedon Treatment Works was taken out of service and a precautionary boil notice was put in place for those customers previously supplied from this treatment works.

Over the following few days a large number of samples were taken from the treated water storage reservoir in Clevedon and at customers' houses. No Cryptosporidium was detected in any of these samples.

All of the water mains which previously contained water that had come from Clevedon Treatment Works were fully flushed to remove all of this water from the local network.

Consequently, following consultation and advice from Public Health England, we lifted the precautionary boil water notice on Sunday 14th January.

The DWI, Public Health England and the local authority environmental health team were kept fully informed throughout the event.

You can read more about the Clevedon incident and our response on page 32.

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

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

We received 1,711 NWQCs during 2017, which is significantly lower than our Outcome Delivery Incentive (ODI) target of 2,322.

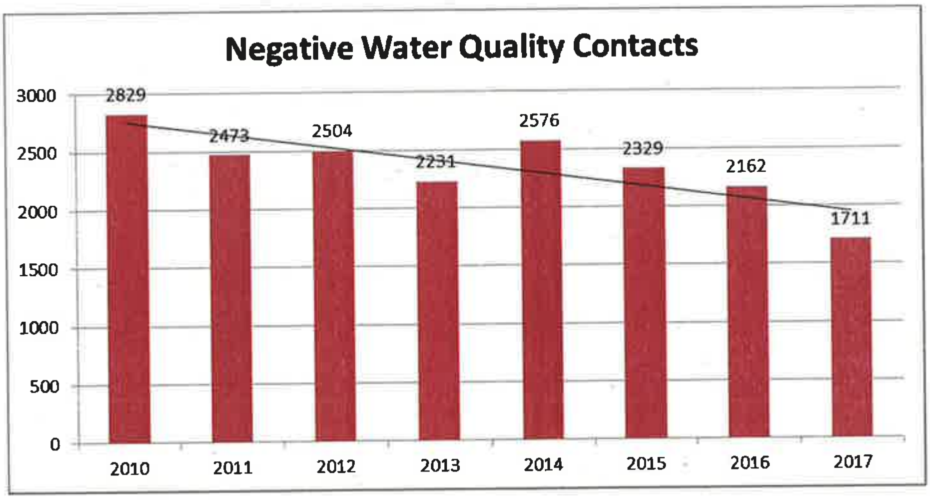


Figure 5: Long term trend of Negative Water Contacts

As shown in the chart above, there has been a reducing trend in the number of contacts we have received over the last few years. We have now seen the benefit of our trunk mains relining/replacement programme, which started in 2015, and the associated systematic flushing of the distribution mains supplied from these trunk mains.

STRATEGIC REPORT (continued)

The renovation of the trunk mains reduced the amount of corrosion debris seeding our network and the associated systematic flushing programme has removed historic corrosion debris. Consequently, we are getting a cleaner network and a much-reduced risk of discoloured water contacts when there is any disturbance to flows caused by burst mains.

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

A good example of our efforts in this area is our creation of the Bristol Water Bar, a pop-up bar that gives people access to free drinking water at events and festivals across the supply area. In May 2017, the Water Bar won the Community Project of the Year and Outstanding Innovation Awards at the Water Industry Achievement Awards. The Water Bar featured at five different public events in 2017: Bristol Pride, the Bristol International Balloon Fiesta, Keynsham Festival, Peaceful Portway and Upfest. Over 40,000 people refilled over the summer with nearly 30,000 plastic bottles saved from going to landfill. At Redfest, it was one of the key environmental features of the event. The Water Bar will be back 'on the road' in 2018 at a wide range of events and festivals.

Outcome	Performance Commitment	2017/18 Target	2017/18 Actual	2016/17 Actual
Efficient use of resources by the Company	**Leakage** Total leakage in million litres per day (Ml/d) as per the Final Determination measure	45.0	49.6	47.4
	Leakage Total leakage in million litres per day (Ml/d) as per the revised measure	45.0	46.6	46.4
	Pumping efficiency Percentage	45	48	58.5
Efficient use of water by customers	**Per capita consumption** Litres per head per day as per the Final Determination	143.6	144.5	144.1
	Per capita consumption Litres per head per day as per the revised measure	143.6	146.3	143.5
	Domestic Meter penetration Percentage	58.8	52.7	49.3
Sustainable environmental impact	**Total carbon emissions** Tonnes CO2 Kg per person	23	28	32
	Raw water quality of sources % of AMP5 baseline aggregate of algal bloom frequency	Marginal +/-<+10%	Marginal -1%	Deteriorating +11%
	Biodiversity Index Index	Improving 17,651	Improving 17,657	Improving 17,650
	Environmental Discharge Compliance Percentage	100%	98.1%	95.8%

STRATEGIC REPORT (continued)

Efficient use of resources by the Company

Leakage

This measure is the amount of water that enters the distribution system but is not delivered to customers because it is lost from either the company's or customers' pipes. 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 the current regulatory period (2015 – 2020) we have set challenging leakage targets at a level where the overall value of the water lost is balanced against the costs of increased leakage control activity.

We continue to work towards achieving these challenging targets, despite higher burst levels in 2017/18, we are driven by our strong commitment to drive leakage down. The combination of targeted investment in our network, improved monitoring and control, and our proactive approach to leakage management and leakage reduction initiatives, such as pressure management, continues to see us actively working to reduce leakage levels further.

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Leakage - million litres of water per day (ml/d)	42	44	45	44	46	46.6
Target	50	49	49	48	47	45

For 2017/18, leakage levels started higher than anticipated due to the winter leakage in January 2017. During the summer period the leakage levels remained at higher than desired levels, and in the autumn additional leakage detection resources were deployed. Although leakage levels during the winter period followed an average profile, leakage levels significantly increased in March due to the freeze / thaw conditions described in detail on page 56.

In the week following the big thaw, leakage reduced significantly due to mains and private leakage repairs. It is estimated that over a third of the leakage observed was private supply pipe leakage and plumbing losses. Leakage levels peaked at over 130 Ml/day, an increase of almost 150% over the normal levels of leakage.

Leakage levels for 2017/18 are 46.6 Ml/day. The actual level of leakage in 2017/18 includes technical adjustments that are based on better information since the target was set in 2014. The Bristol Water Board has made a commitment that we will calculate outcome incentive payments for customers without taking into account the technical adjustments needed to ensure leakage reporting reflects the most accurate and up-to-date data. Without technical adjustments, leakage in 2017/18 was 49.6 Ml/d. The outcome incentive payments are calculated on an average of 2015-2020 performance.

Proactive approach to leakage detection

In the last year we have replaced 9.3 km of the distribution mains network that was in poor condition and repaired around 6,000 leaks on our system, including 1,222 burst water mains. In addition to the leaks repaired on our network, we also identified in excess of 2,000 leaks on private customer service pipes, providing free or subsidised repair of these private leaks in more than a quarter of cases.

A new phase of a programme of pressure management and control is on-going and a number of new schemes were implemented in 2017/18, as well as intelligent modulation of pressures in a number of areas.

STRATEGIC REPORT (continued)

Pumping efficiency
In our on-going efforts to reduce our energy consumption, reduce costs and improve efficiency, we have improved the efficiency of our pump units over 40kW by 56.4% due to the installation and use of new and more efficient pumping machines. In addition, operational pumping combinations and pump speeds for the large raw water pumping stations are now selected with regard to optimum duty point whenever possible, improving the overall efficiency of our pumping system.

Efficient use of resources by customers

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

Household meter penetration for 2017/18 is 52.7%, up from 49.3% in 2016/17 but below our target of 58.8%. Our level of 'meter optants', which is when a customer requests the installation of a meter, has remained the same in 2017/18 as the previous year. We have extended our 'change of occupier' metering programme, which is where we target all properties which are subject to a transfer of ownership and this has meant we have increased the number of meter installations by approximately 9,500 in 2017/18.

We have set up a dedicated project team to focus on delivering our metering objectives for the next two years. This team will continue the work we've already done to improve our metering processes as we now work towards installing over 70,000 meters to meet our March 2020 target of 65.9%.

Average water consumption per customer per day (per capita consumption "PCC") for 2017/18 was 146.3 litres per person per day which is 2.7 litres above the target figure of 143.6 litres and an increase of 2.2 in 2016/17.

Sustainable environmental impact

Total carbon emissions
One key measure of our environmental impact is our carbon emissions. We use almost 80 million kilowatt hours of electrical energy to treat and distribute water. 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.

We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint. Our carbon footprint has reduced over the year from 38k tonnes of CO_2 equivalent to 34.23k tonnes of CO_2 equivalent.

We use the Standard Water UK calculation methodology to calculate our carbon emissions shown as a normalised kg CO_2 per Ml of water into supply. In 2017/18, this fell to 336kg/Ml from 343kg/Ml in 2016/17. This measure has reduced significantly since 2010 thanks to our use of renewable energy, our energy efficiency programmes and a national reduction in the carbon emissions associated with energy use.

STRATEGIC REPORT (continued)

Raw Water Quality of Sources
The quality of our water sources, particularly in the Mendip lakes, can be impacted due to nutrients and sediment that can enter the watercourses from land and activities in the catchment area of the source. We have been working with local landholders and farmers to identify where such issues can be addressed and through our partnership programmes with key stakeholders, such as the Mendip Lakes Partnership, we are able to work together on these issues.

The partners involved include Natural England, the Environment Agency, Wessex Water, Avon Wildlife Trust, Farming & Wildlife Advisory Group and Catchment Sensitive Farming. We are continuing to hold a range of successful farm engagement and training sessions with landholders in the key catchment areas.

We monitor the quality of water in the Mendip reservoirs and this monitoring has indicated that our catchment management programme is having a progressive beneficial effect on water quality, with a gradual reduction in the level of algal blooms experienced in these water sources.

Biodiversity Index ("BI")
We monitor our protection and enhancement of the natural environment through an innovative approach that we have called the Biodiversity Index. This quantifies the environmental value of our sites and creates a "direction of travel" for the way we manage our property, helping us to protect and enhance the natural environment by using the Index to quantify the impact of our actions on the broader environment. This calculation and method is a tool we will continue to develop through the coming years, using it to measure our performance on habitat protection and enhancement.

Although the Biodiversity Index is applied on a quantified basis to the property we own, we have extended the approach to include the Southern Resilience Scheme, with scores taken before and after works takes place at sites from Barrow, south to Cheddar. Working with our partners such as Avon Wildlife Trust, local schools and land owners we have created new habitats which will improve the biodiversity and support wildlife across a wider stretch of the landscape we serve.

Environmental Discharge compliance
This measure is assessed on a calendar year basis and so relates to performance during 2017. We monitor all of our discharges which have been consented by the Environment Agency. Over 98% of the samples we took were fully compliant with the discharge consent conditions. This shows a good level of improvement compared to the performance during 2016/17. Our Solutions Engineering Team are looking at the reasons for the small number of failures we've had this year with a view to implementing remedial measures to drive our compliance figure higher.

RESPONSIVE TO CUSTOMERS - We set out to provide outstanding water services in a sustainable and affordable way to meet and exceed our customers' expectations.

Outcome	Performance Commitment	2017/18 Target	2017/18 Actual	2016/17 Actual
Affordable Bills	Percentage customers in water poverty	1.9%	0.0%	0.9%
	Percentage of customers on social tariffs	2.5%	2.7%	2.0%
Satisfied customers	Ofwat measurement of customer service (SIM) (out of 100)	86.0	83.4	85.9
	General satisfaction percentage rating	93	87	86
	Value for money percentage rating	71	69	72
Easy to contact	Percentage rating from surveys	96.5	93.1	94.4
Bills are accurate and easy to understand	Number of negative billing contacts	2,315	2,300	3,096

STRATEGIC REPORT (continued)

Supporting customers in vulnerable circumstances

With more support available for customers, this year for the first time our water poverty measure indicates that none of our customers remain in water poverty due to low incomes. We have a number of schemes in place to make sure we help customers who find it hard to pay their water charges. We monitor the percentage of our household customers that we classify as experiencing 'water poverty' (those who spend more than 2% of their net income on paying their water charges) and offer advice, assistance schemes and capped tariffs, known as 'social tariffs'.

We offer three discounted tariffs to make sure we help customers who find it hard to pay their water charges, with 13,707 customers receiving assistance through these measures, an increase of 17% over last year. Below is a breakdown of each scheme and the number of customers currently registered:

- 6,439 households are on our 'Assist' social tariff, which offers significant bill discounts to those customers least able to afford their bill, following a means assessment. Following a change to the status of the social tariff, for this year we have deducted these customers from the gross water poverty figure, consistent with our methodology.
- 2,587 households are on our WaterSure Plus metered tariff, this is for customers in receipt of certain benefits, and are defined by the government as 'vulnerable', either because they have a medical condition or a large family.
- 4,681 customers are on our Pension Credit social tariff. This scheme gives a 20% discount on water bills to customers who live in a household where all members over the age of 18 are in receipt of Pension Credit.

In addition to the social tariff schemes, 3,821 households are currently benefitting from our 'Restart' scheme to clear their debt combined with our 'Assist' tariff, which reduces bills to an affordable level and helps customers who are in financial difficulty to get back on track with their water bill.

We also offer metering, water efficiency support and flexible payments plans to customers who may also need support paying but do not need as much assistance as a social tariff.

We know that when our customers have difficulty paying water bills, it is seldom the only difficulty they face and we work to provide independent debt advice, working closely with the agencies that provide these services. In 2017/18, we donated £100,000 to debt advice agencies across our supply area to support them in providing free advice to our customers with the funding tied to successful eligible customer registration. We also work closely with our partner organisations to sponsor and attend debt and affordability events in our region

The established working group called the Affordability Action Plan (AAP) brings together colleagues from Bristol Water, Pelican and Wessex Water to make improvements for customers with affordability concerns. From January 2018 the group has agreed to expand the remit to cover all aspects of vulnerability. This is expected to improve further the service that Pelican provides to all customers in need of extra support and expand our use of partners outside of the affordability and debt sector.

Elderly and disabled customers, those undergoing home dialysis or have priority needs can also register for our Priority Services Register, which gives access to a range of special services free of charge. We have worked with WaterUK to start the process of standardising our vulnerable customer need codes across utilities to enable data sharing in the future.

STRATEGIC REPORT (continued)

Satisfied customers
The measures reported in the Responsive to Customer section are below the level where we would have expected them to be when we started the year as three incidents (Sea Mills, Willsbridge and Clevedon) have impacted significantly on these measures. We have worked throughout the year on a number of projects to drive improvement for the 2017/18 results but the impact was not enough to mitigate the effects of incidents which resulted in 310 complaints and the qualitative SIM score after Sea Mills and Willsbridge of 4.37, the lowest in 11 surveys.

We undertook a range of research after the incidents to understand how we can improve the service, the first two showed there was more we needed to do to distribute bottled water to those in need, this was improved significantly for Clevedon and all customers who rated us as dissatisfied in the feedback survey were contacted and the issues resolved.

A selection of the improvements that we introduced during 2017/18 to improve customer satisfaction included a bill redesign, real time feedback, 'Live Chat' and the increased use of social media, with over 400,000 customers reached through Facebook during the Clevedon boil notice and a new customer charter across Bristol Water and our network sub-contractors.

This has been reflected in the UKCSI January 2018 result which placed us as the joint top water company for customer satisfaction.

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

- Ofwat's Service Incentive Mechanism (SIM), measuring the household customer experience
- Customers' assessment of whether we provide value for money, measured through our monthly consumer experience surveys
- Customers' assessment of how easy we are to contact, measured through our monthly consumer experience surveys
- The volume of complaints about billing we receive
- Customer satisfaction, measured through our annual tracking survey of household consumers

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

Our SIM score in 2017/18 was 83.4, a decrease of 2.5 on the 2016/17 result. In terms of the qualitative ranking we are 12th, this measurement makes up 75% of the SIM score. Our relative performance on the quantitative element is not yet known until other companies publish their result, these will be available in July 2018.

Our analysis shows that if the exceptional events are excluded, we would have achieved our SIM target. In addition without the impact of these events our underlying performance for unwanted calls and second stage complaints shows a decrease from last year of 8% and 18% respectively, demonstrating an improved ability to handle complaints.

STRATEGIC REPORT (continued)

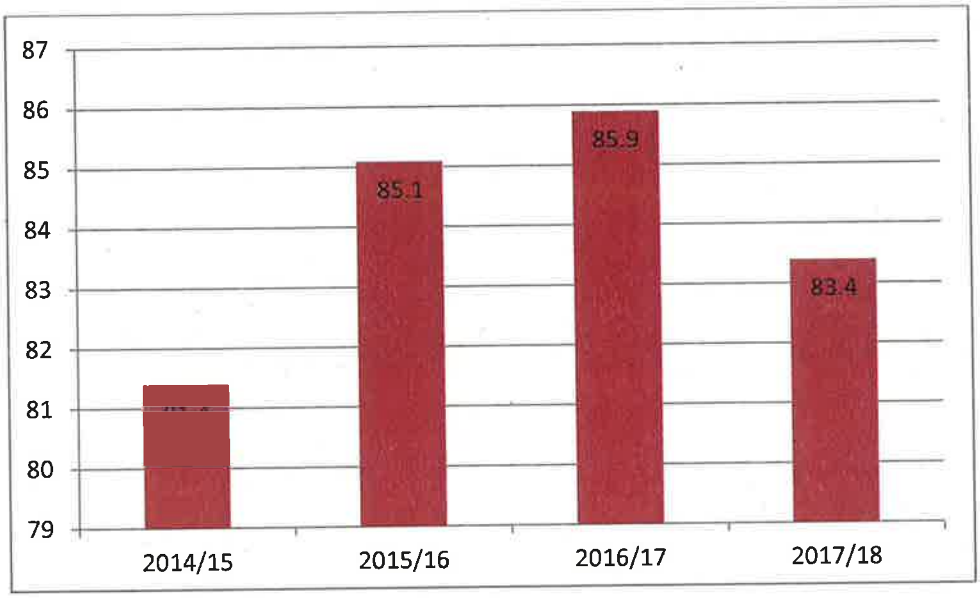


Figure 6: Ofwat's measure of customer service: Service Incentive Mechanism

Our first stage complaint numbers have increased compared to last year, when we compare without the exceptional incidents there is still a very slight increase which is due to an increase in complaints on metering. The complaints were regarding the length of time it has taken to install a meter.

We expanded our customer care team to proactively contact all customers who were overdue their meter to keep them informed of progress while we worked to reduce meter installation times. This has now been scaled back but will be a continued way of working for customers waiting for a meter.

We survey customers every month using the same independent research agency that Ofwat uses to get feedback. This allows us to obtain a consumer rating of the value for money we provide. In 2017/18, 69% of consumers in these surveys rated our service as providing good value for money.

We have continued working with a second independent consumer research agency on our annual tracking survey of 1,000 household consumers. These consumers are selected at random from across our supply region, to find out how they rate our service. This is very different from our other measures as most of the customers surveyed will not have had direct contact with us apart from receiving their annual bill as well as their perception of us from external sources.

In February 2018, 87% of respondents rated our service as excellent, very good or good, an increase from 86% the year before. Other results from this survey also reveal an improvement for customer experience including an increase in our reputation to 84% from 82% and our comparison to other utility providers has increased to 74% of customers thinking that we compare very or quite well to other utility providers which is up from 69% the year before.

STRATEGIC REPORT (continued)

Easy to contact

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

In 2017/18, 93% of consumers surveyed considered that it was easy to contact us by phone. This measure is calculated through eight surveys of 100 consumers. Customers expect us to have quick and accurate information so we are working on improvements to make information more easily available to our employees so they can answer questions consistently and correctly the first time. This year IT improvements have started to give our contact centre more visibility of where customer jobs are in the system across both Bristol Water and our subcontractor making it easier to answer enquiries at the first point of contact.

Bills are accurate and easy to understand

Our customers want bills that are accurate, clearly presented and easy to understand, we monitor this by measuring a subset of the number of 'unwanted' billing contacts we receive. '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 audits that took place in 2016 have helped us to refine our methodology of how contacts are classified within this measure. Historic results have not been restated so year on year comparisons do not reflect underlying trends.

The changes in classification have increased our reported results to 2,300 in 2017/18.

BEST PEOPLE RIGHT CULTURE - Employing the very best people and fostering the right culture within our business is key to our continued success.

Outcome	Performance Commitment	2017/18 Target	2017/18 Actual	2016/17 Actual
Safe working practices	**Safe working practices** No. of accidents reportable to Health and Safety Executive ("HSE")	0	2	1
Skilled and motivated workforce	**Skilled and motivated workforce** Engagement score (%) from the Employee Survey	No target set. Survey not completed in 15/16 or 16/17	57%	No survey. Temperature checks undertaken.

Safe Working Practices

The health and safety of our employees, contractors and members of the public is of paramount importance. We continually invest in our people ensuring that they have the right skills, knowledge and training to work safely ensuring their own safety and that of others around them. We work closely with our contract partners striving to ensure we all have the same aligned vision and are working to achieve the same health and safety goals.

Whilst there is no way to totally eliminate hazards, Bristol Water is a safe place to work. Excellent health and safety is an integral part of Bristol Water's approach to corporate responsibility and we strive to ensure a healthy and safe working environment for our employees, those who work on our premises and those affected by our actions. Bristol Water's vision is that we are successful only when we achieve our goals without harm to people, which means applying a continuous improvement process across the whole company.

STRATEGIC REPORT (continued)

Reduction in accident numbers continues to be the key area of focus to ensure that overall trends improve and best practice is implemented. In 2017/18, two accidents were reportable to the HSE; one was reportable as an over seven day injury and one as a dangerous occurrence. Overall accident numbers during 2017/18 broadly reflect the previous year's performance and with this in mind during 2017/18 we have seen the launch of a number of initiatives designed to further develop the positive safety culture already in place at Bristol Water.

Skilled and motivated workforce

Resourcing, development and training

Bristol Water aims to have the "right people, in the right place, with the right experience, at the right time". Dedicated to developing a resource strategy that fits the needs of the business and secures our future, the HR team are focusing on time, cost and quality within the hire process. The team are also working hard to ensure that Bristol Water is seen as an 'employer of choice', continuing to develop our employer brand within the external marketplace.

With a strong focus on the candidate experience, we are using new technology whilst undertaking enhanced working practises to ensure we deliver the needs of the business, now and in the future.

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

We have produced a comprehensive learning and development strategy that will ensure all our people are trained to the required standards and have opportunities for personal development.

Our appraisal process provides all employees with an opportunity to agree meaningful objectives for their work and review their performance and talk about development needs. We also use this process to identify and plan training and development needs that support people to competently deliver their role and develop new skills. This can include informal opportunities such as secondments, work shadowing and coaching, and also more formal activities such as further education and training.

Reward, culture and wellbeing

We benchmark our reward proposals using a well-established external global grading system to ensure that our people are fairly rewarded and that we remain competitive in the marketplace, attracting and retaining top talent.

This information also provides the company with essential data to ensure we remain legally compliant with equal pay legislation.

The Employee Engagement Survey conducted this year has given us valuable insights into how our employees are feeling and where we can make improvements. The Company systematically provides employees with information on matters of concern to them, consulting them or their union representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Wellbeing week took place during October/November 2017 and a number of health and mental health awareness events were made available to Bristol Water employees and contract partners during this week. A health kiosk was hired for a month which allowed everyone to have a health 'MOT'. The Wellbeing stand was visited by approximately 200 employees and the wellbeing team took wellbeing packs out to some network and production sites. An evaluation of the week took place and we have used this feedback to implement further initiatives that will also form part of our Wellbeing strategy for 2018/19.

STRATEGIC REPORT (continued)

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

Outcome	Performance Commitment	2017/18 Target	2017/18 Actual	2016/17 Actual
Investor confidence	**Investor confidence** Credit rating	Baa1	Baa1	Baa1
Fair return to investors	**Fair return to investors** Percentage Return on Regulated Equity (RORE)	5.8	5.5	4.6
Highly reputable	**Customer survey** Percentage rating in survey	83	84	86
	Stakeholder survey Percentage rating in survey	53	72	54

In 2014/15 we launched Project Channel, a business efficiency improvement programme designed to adapt Bristol Water to meet the challenges of the current regulatory period from 2015-2020 ("AMP6") and deliver enduring efficiencies that meet the demands of the modern water sector.

The programme itself has largely met its objectives and leaves a legacy culture of continuous improvement as we learn to thrive in an environment of ongoing change.

We are committed to ensuring we are always operating at our best, last year the Business Improvement and Innovation team invested in building the continuous improvement capability of individuals and trained 42 staff in Lean Competency system fundamentals (a process optimisation approach originally developed at the Lean enterprise research Centre at Cardiff university); this investment continues to benefit us this year, with some of our experts launching projects to optimise our leakage and metering processes. These projects aim to reduce the lead time and working inefficiencies associated with these activities.

We have introduced an Innovation Framework to build on the successes the company has enjoyed. The framework will help guide our innovations towards those areas of most strategic need and drive business efficiencies. An example of this is where we have built on the success of last year's continuous improvement and introduced leading robotic process automation technology which can remove manual effort and improve quality of repetitive activities across the business.

Investor confidence

We use effective financial management and open communication to maintain investor confidence in order that we can secure funds to invest in the business to deliver our long-term strategy. We have maintained better than the minimum investment grade rating required under our licence. Our rating with Moody's is Baa1.

STRATEGIC REPORT (continued)

Fair return to investors

To be a sustainable business, it is important that returns are fair and sufficient to attract investors to fund the investment required. Ofwat measure our financial performance using a metric called return on regulated equity ("RORE"). This ratio provides a measure of the value of companies' earnings relative to the equity component of the regulatory capital base.

In 2017/18, RORE was 5.5% an improvement from 2016/17's comparable RORE of 4.6%, but lower than the 5.8% assumed in our Final Determination which included significant challenges. The improvement relates to an underspend of costs and interest rates against our allowance, offset by outcome delivery incentive penalties.

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.

In our general satisfaction survey of customers respondents are asked to rate our reputation. In 2018, 84% of respondents felt that our reputation was good or very good, very similar to 86% the year before.

In order to obtain the views of other stakeholders we annually survey a randomly selected group of people including MPs, other utility companies, businesses and a range of partner organisations including local and regional government. We conducted this in 2 parts: telephone interviews with local businesses and in-depth interviews with a sample of key stakeholders, who are asked their views on how well we perform in a number of key areas. We use an external agency Future Focus Research to conduct the interviews to provide impartiality.

In 2017 we conducted the business survey using an online methodology taken from our non-domestic customer base. However as we no longer have direct access to this sampling frame the methodology in 2018 was changed to be a telephone survey of a random sample of local businesses.

This meant this part of the survey was more local than it might previously have been. In addition we decided not to conduct depth interviews with any of the Regulators as part of this survey in 2018, so again this element of the survey was more local. In 2018 we conducted 250 business interviews and 39 stakeholder interviews.

When asked about the service received, 86% rated it as excellent, very good or good (86% in 2016/17). There was an increase of 6% to 60% of respondents who thought the service we provide is value for money (54% in 2016/17).

We also asked stakeholders views on our reputation with 72% citing a positive response, up from 54% in 2016/17. 62% also rated us to be a very good or good corporate citizen an increase of 9% on 2016/17's survey.

Stakeholders also expressed widespread satisfaction with the quality of the water provided, and the reliability of supply. They emphasised the importance of focusing on delivering this essential service as well as engaging with our customers through all elements of the Company.

The in-depth interview respondents, selected because of their status as key stakeholders who had current contact with us were mostly positive about their interactions with us over the last year. There was an overwhelming recognition that we deliver our core service of providing water extremely well. Our excellent communication and responsiveness was praised and we were seen as being both engaging and approachable. It was clear that they value the staff that they interact with, and have built up strong relationships. A minority felt that we need to be more proactive in reaching out and would value even more contact with us. We are seen as professional and reliable with a strong local presence.

STRATEGIC REPORT (continued)

Most felt that we are proactive in looking after the environment and it was recognised that we take our corporate and social responsibilities very seriously. Although some felt that we need to communicate more about the work that we are doing, and further commit to enhancing our community activities in the future.

The challenges that lie ahead were noted, and even though it was recognised that the impact of some, such as Brexit, population growth and climate change, remain unknown, they were still positive that we will overcome these challenges, further emphasising their confidence in us as a business.

Case Study: Clevedon incident
11th – 14th January 2018

The incident: In January 2018, a raw water sample at Clevedon Treatment Works was found to contain Cryptosporidium. 'Crypto' is a microscopic parasite resistant to chlorine. There is no treatment at Clevedon to inactivate or remove Crypto. If it is ingested it can cause symptoms of diarrhoea, nausea, vomiting and stomach pain. Crypto had never previously been detected at Clevedon Treatment Works.

Although it was found in the untreated raw water, the potential significance meant that Bristol Water took the treatment works out of supply with immediate effect and a precautionary boil notice was issued to all 7,000 customers that were supplied by Clevedon Treatment Works. The boil notice was put in place on Thursday 11th January and was removed on Sunday 14th January. The treatment works is currently still out of service (May 2018) and investigations are continuing into how the raw water became contaminated with Crypto. The Drinking Water Inspectorate, Public Health England and the local authority environmental health team were kept fully informed throughout the event.

Operational response: From 5pm on Thursday 11th January, over 50 Bristol Water employees volunteered by delivering leaflets to every household in the affected area. The water sampling team took further samples from the Clevedon raw water well where Crypto was originally found and from customers' houses throughout Clevedon. All of these samples were totally clear of Crypto. As always in any incident, bottled water was hand delivered to all customers on our vulnerable customers list.

After the boil notice was lifted, our employees went out and hand delivered notices to inform our customers the water was safe to drink without boiling and to provide feedback forms to every property affected.

Customer support: The customer service line received over 730 calls during January, and this equated to 58 complaints. The line was open on average 12 hours a day, and this was split between the localised customer service team in Bristol and also Northern Ireland. We are always pleased when our customers recognise our commitment and this compliment from one of our customers illustrates the difference we can make: "*I would like to say a personal thank you for the excellent manner in which you dealt with the Clevedon water crisis, and specifically for the helpful way your employees delivered the notices. You're really helpful employee who issued the notices in Hill Road Clevedon went over and above to deliver notices to hidden neighbours.*"

Communications: All social media channels were saturated with updates and news throughout the entire time, from 7am to midnight each day the boil notice was in place. The corporate website also provided a lot of helpful information such as hourly updates, hints and tips, guides and press releases.

Interviews on local news were also organised to try to reach as wide an audience as possible. SMS text messages and an RAD (Recorded Announcement Device) were also put out to all customers and we telephoned the local schools and nursing homes. The regulators and local authorities were kept fully informed throughout the event.

STRATEGIC REPORT (continued)

Social media stats:

- 47% of customers heard of the incident via Facebook
- 600k views across all channels
- 125k engagement
- 5k response to customers
- 100k website hits

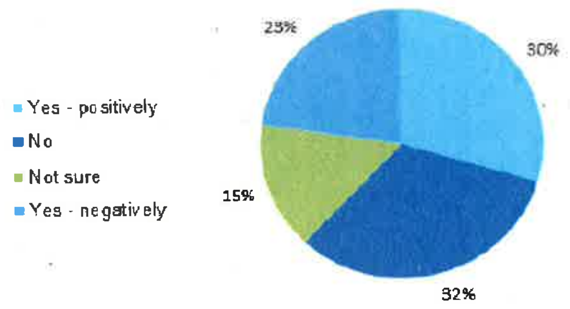
Customer satisfaction: Post incident, Bristol Water received a 70% customer satisfaction score. Customer quote: "*Regular updates throughout the weekend and very impressed with the volunteers delivering leaflets on the Thursday night.*"

Learnings:

- Clear information should be verified before circulating to customers, there was a slight misprint in the original boil notice guide which caused customer confusion. .
- Improve process for alerting customers, this may include collecting more methods of customer contact e.g. email and mobile numbers for the customers we service.
- Analyse our alternative water supplies and how they can be maximised.

Where did you hear about the incident?

47% Facebook
32% From people in the area
8% Other
4% Bristol Water called
3% Local radio
2% Twitter
2% Notice through the door
1% Local news
1% Bristol Water website



Has our handling of the issue altered your view on Bristol Water as a company?

Figure 7: Customer interaction during the Clevedon Incident

STRATEGIC REPORT (continued)

FINANCIAL PERFORMANCE

Financial Key Performance Indicators (KPIs)

For the year ended 31 March 2018

	2018	2017
	£m	£m
Turnover	114.9	111.0
EBITDA	51.4	50.8
Operating profit	28.6	31.3
Profit before tax	15.4	20.9
Profit after tax	11.8	20.0
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	311.0	295.6
Regulatory Capital Value (RCV)	502.3	470.7
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	62%	63%
Capital investment before grants and contributions	56.4	38.8

Turnover of £114.9m is an increase of £3.9m from the previous year. This is mainly the effect of the regulatory allowed price increase of 2.24% (which includes RPI of 2.19%) and new customers. Within those numbers there is a fall in unmeasured income and an increase in measured as properties have transferred to a meter. In 2016/17 income in respect of the retail element of non household revenues was £1.627m. This is reduced to zero for 2017/18 as we have exited the non household retail market.

EBITDA increased by £0.6m reflecting the increase in income of £3.9m offset by higher costs. About half of the increase in costs of £3.3m related to £1.4m consultancy costs associated with PR19. The remaining increases were due to additional contractor costs on maintenance of our network of £0.8m, higher electricity charges of £0.3m, increases in Guaranteed Standards of Service (GSS) payments of £0.1m due to several large bursts in the year, higher rechargeable costs of £0.2m, an increase in the costs of staffing human resources and health and safety of £0.2m and costs of aborted capital schemes £0.3m.

Operating profit decreased by £2.7m reflecting an impairment charge of £4.7m relating to planning and investigation costs of a new reservoir in Cheddar which is not being progressed, a higher depreciation charge of £0.8m which has been offset by the £0.6m increase in EBITDA and a £1.9m profit on disposal of assets compared with a loss on disposal in the prior year of £0.3m. The profit on disposal included £2.1m received for the sale of the non-household customer book when we exited the non-household retail market.

Profit after tax decreased by £8.2m to £11.8m, the reduction is driven by the decrease in operating profit, above, together with higher interest costs of £13.2m compared to £10.4m last year, due to higher indexation charges and an increase in total tax of £2.7m. For the current year, there is an overall tax charge of £3.6m compared to the lower tax charge of £0.9m last year due to a reduction in deferred tax rates generating a credit of £3.3m

STRATEGIC REPORT (continued)

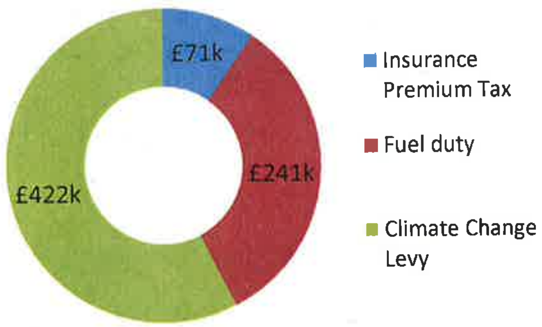
Taxation
Under the UK water industry regulatory framework, reduced tax payments will ultimately lead to reduced bills for our customers, and whilst we aim to minimise our tax liability by recognising appropriate legislative concessions and reliefs as set out by tax legislation, we do not aggressively interpret the legislation or use artificial tax avoidance schemes.

You can read our full taxation policy on our website; https://www.bristolwater.co.uk/wp/wp-content/uploads/2016/03/Approved-Tax-strategy.pdf.

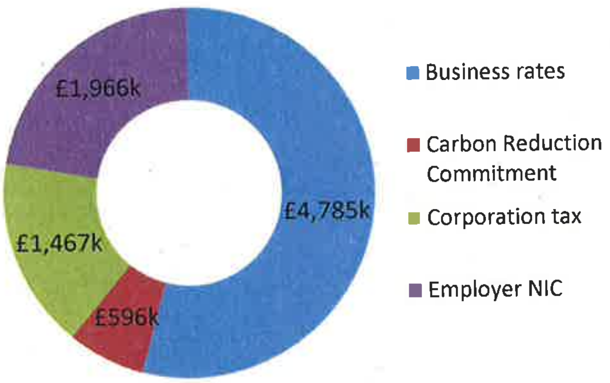
The Company's total tax contribution extends beyond the corporation tax charge; the most significant taxes are detailed below:

Taxes incurred indirectly – taxes representing a cost to us but are included in the costs our suppliers and contractors charge us so are incurred as a result of our business activities.

- Insurance Premium tax – tax levied on insurance premiums
- Fuel duty – duty on petrol, diesel and fuel used in vehicles
- Climate Change Levy – tax on industrial or commercial use of electricity, gas and solid fuels

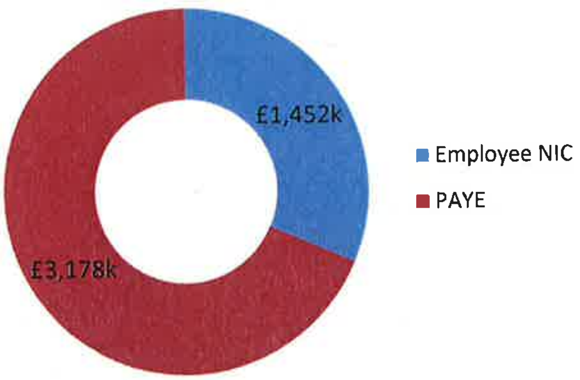


Taxes incurred directly – taxes representing a cost to us and are paid directly to the government



- Business rates – tax on non-domestic properties
- Carbon Reduction Commitment – tax on gas and electric consumption calculated by reference to CO_2 emissions
- Corporation tax – tax levied on taxable profits of a company
- Employer National Insurance – tax on wages payable by employers
- VAT – tax levied on sale of goods and services (VAT has no net costs to us therefore not shown in graph above)

Taxes collected on behalf of others. This generates the tax which contributes to the economy.



- National Insurance – tax on wages payable by employees
- PAYE – Pay As You Earn tax incurred by employees on their wages. It is deducted by employers and paid to HMRC

STRATEGIC REPORT (continued)

For the current financial year, Bristol Water's total tax contribution to the economy was £19.1m. The largest contributors are shown in the graph below.

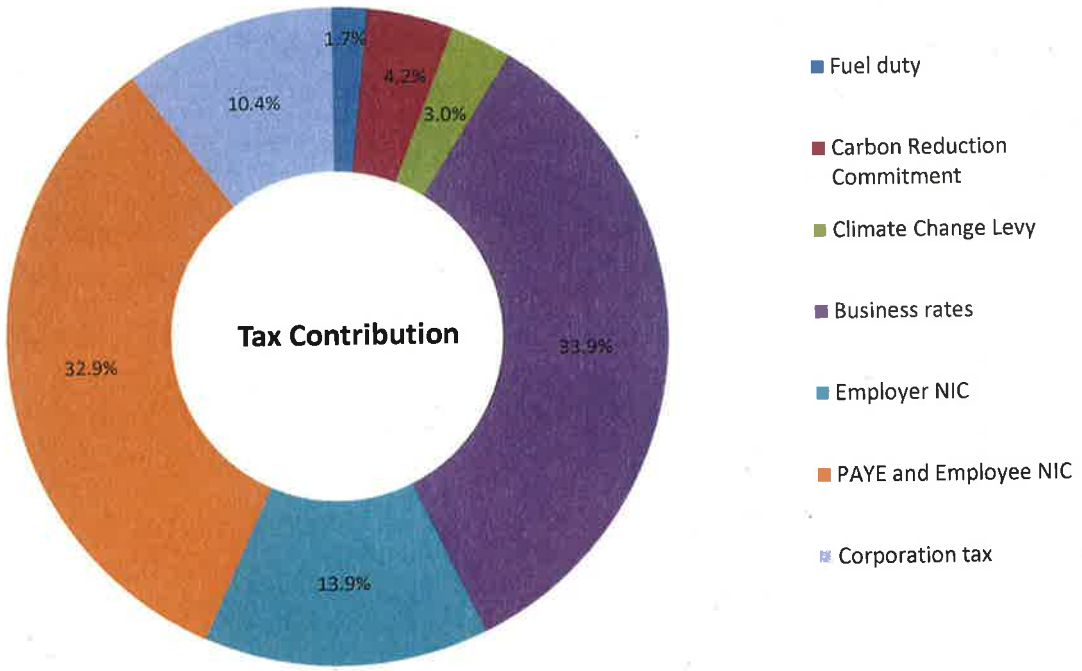


Figure 8: Bristol Water's total tax contribution 2017/18

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 and institutions.

Net debt excluding the 8.75% irredeemable cumulative preference shares was £311.0m (2016/17: £295.6m), representing approximately 62% (2016/17: 63%) of the RCV of £502.3m (2016/17: £470.7m). The increase in RCV reflects an increase due to indexation of £15.7m and net additions to RCV during the period of £15.9m.

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

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

Cash, including deposits with banks, was £15.0m (2016/17: £16.1), the significant cash flows during the year were:

- cash inflow of £50.4m from operations,
- cash outflow of £55.2m for capital expenditure,
- cash inflow of £4.2m for contributions received, £0.1m proceeds from disposal of assets and £9.1m proceeds from the sale of held for sale assets and liabilities,
- proceeds of £29.9m from new borrowings, repayment of £20m debt, issue expenses £0.2m and lease repayments of £0.4m,
- base level dividend of £4.0m, which relates to changes in working capital requirements between retail and wholesale businesses,
- inter-company loan interest related dividend of £3.3m,
- net interest payments of £8.8m, including £1.1m preference share dividend payments, and
- corporation tax payment of £2.9m.

STRATEGIC REPORT (continued)

Dividends

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

- a base level taking into consideration the revenues allowed by Ofwat in the five year determination of price limits, the Company's funding requirements and the actual performance of the business
- adjustments reflect differences in gearing to those assumed by Ofwat and our outperformance and underperformance on cost and service incentive performance; 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, a cash neutral transaction.

Total base level dividends and dividends in respect of the inter-company loans paid during the year were £4.0m (2016/17: £6.0m) and £3.3m (2016/17: £3.2m) respectively. Base level dividends related to a payment to the non-household retail business due to the structural changes in working capital requirements between retail and wholesale businesses and the resulting acceleration of cash receipts into the wholesale business, the dividends were used by a holding company to loan funds to W2B.

In addition, annual dividends of £1.1m (2016/17: £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 income statement.

Pensions

Pension arrangements for employees were historically 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.

In March 2016, the Company closed its two sections of the WCPS to future accrual for existing members. The two sections are part of a defined benefit scheme and members of this scheme became 'deferred' members on closure. Employees who were part of the schemes received one year's future accrual, covering the current financial year. Since that closure, all employees are offered membership in a stakeholder defined contribution pension scheme.

The latest triennial valuation of the defined benefit pension scheme was completed as at 31 March 2017. The total surplus as at 31 March 2017 measured on a long-term scheme funding basis was £19.2m. This represented a funding level of 108.9%.

The actuarial valuation under International Financial Reporting Standard 19 (IAS 19) and therefore FRS101 at 31 March 2018 shows a net pension surplus of £33.5m which has been recognised in the financial statements (2016/17: £32.3m). The funding surplus of £19.2m and the accounting surplus of £33.5m are not comparable because:

- the funding surplus is based on a position at 31 March 2017 and the accounting surplus is based on a position at 31 March 2018, and
- the approach for valuation of scheme liabilities in the financial statements is prescribed by accounting standards

The pension fund is in surplus under IAS 19. As the scheme has been closed to future accrual the surplus cannot be recovered through on-going contribution payments. Bristol Water has an unconditional right to the refund of any surplus should one exist at the termination of the scheme. Therefore, the pension asset is shown net of a 35% income tax rate which would be applicable if the funds were repaid to Bristol Water from the pension scheme.

STRATEGIC REPORT (continued)

Further financial information in relation to defined benefit and defined contribution pension schemes is disclosed in note 24 to the financial statements.

Capital programme
During the year, we invested £56.4m (2016/17: £38.8m) in capital expenditure before contributions. The capital spend in 2017/18 was higher than the prior year reflecting the increase in activity to meet the AMP6 capital programme with significant progress having been made this year.

Capital investment during the year included the following key projects:

- Completion of the Southern Resilience Scheme, our biggest scheme for AMP6
- Replacement of 9.2km of the distribution mains network that was in poor condition
- Trunk mains relining
- Stop tap replacement
- Upgrading electro chlorination processes at Clevedon, Stowey and Chelvey treatment works
- Upgrade to Stowey pH correction treatment process
- Meter replacements including smart meter roll out
- Improvement to IT infrastructure, including new servers, backup technology, cyber security and data protection and live chat function
- PR19 project work specifically relating to capital investment expenditure
- Continuation of the National Environment Programme including assisting farmers with catchment management and eel protection.

Long Term Viability Statement

The Directors have considered the principal risks and uncertainties for Bristol Water, as set out on pages 44 to 55, and their potential impact on the Company's strategic plan. A detailed assessment of financial viability has been carried out using a range of scenarios to stress-test the plan. On the basis of this assessment, the Directors have a reasonable expectation that the company will remain financially and operationally viable for the ten-year period ending March 2028.

Time period
As a monopoly supplier of water services, our revenues are determined by the regulator (Ofwat) over each five-year AMP period. The current AMP period (AMP6) runs to March 2020, providing a large degree of certainty over our revenues for this period. Revenues beyond 2020 are currently undetermined, but will be set with reference to Ofwat's statutory duties. Revenues for AMP7 (April 2020 to March 2025) will be determined in December 2019.

The Board believes that a ten-year period forms an appropriate timeframe over which we should assess the Company's long-term viability. The decision is based on the following factors:

- We are a long-term business, operating under a rolling 25-year licence to provide vital services to current and future customers. Therefore it seems appropriate to consider a longer time period than other companies.
- Whilst revenues beyond the current AMP period are less certain, given the protections that exist under the regulatory model we don't believe this should necessarily be a constraint.
- A ten-year period spans all the phases of two business planning cycles.

STRATEGIC REPORT (continued)

Longer term prospects
Bristol Water currently holds a Baa1 investment grade credit rating with Moody's. This underpins the current financing structure and supports the ability to raise new debt or equity in the future.
The key negative factors that could affect the Company's prospects are:

Operational performance
Poor operational performance could impact on our reputation and legitimacy with customers and the regulator, along with other stakeholders. Performance against the Company's performance commitments in the current AMP (AMP6) can have a financial impact in the next AMP (AMP7) through regulatory rewards and penalties, as well an immediate financial impact if issues need to be addressed. From AMP7 onwards, in-period Outcome Delivery Incentives (ODIs) will mean the financial impact is felt much sooner.

Financial performance
Expenditure and cash flows need to be carefully managed to consider the impact on key financial ratios and the requirement to maintain an investment grade credit rating. Given the long-term impact of the decisions we take, the Company does not finance its investment programme entirely through current customer bills. Therefore the company requires access to debt markets to secure funding that balances the long-term nature of the business with the need to maintain efficient costs.

The economic outlook
Revenues, along with some of our costs, are directly linked to inflation. Therefore inflation movements introduce volatility into our financial results, the extent of which is determined by the rate and scale of the change. Interest rates and input price pressures will influence the Company's prospects when they diverge from the assumptions assumed in the Regulatory determination of revenues.

Regulation including price reviews
Our revenues for the period 2020 to 2025 will not be determined until December 2019. The Company is developing a robust business plan, which looks out to 2030 and beyond, for submission to Ofwat in September 2018. However until the determination is received there is inherent uncertainty on the prospects beyond 2020. Wider legal or regulatory developments (e.g. further development of competitive markets) would also have an impact on the Company's prospects.

Assessment process
The Company's prospects are regularly assessed through strategic and financial planning processes. The strategic plan is aligned to the emerging expectations from the price review process, which the Board is closely involved with via a specific sub-committee.

Annual operating budgets are set in the context of the strategic plan and compared to the regulatory allowances. Performance against the budget is monitored and reviewed by the Executive Management Team each month and discussed at all Board meetings. A detailed quarterly review process is undertaken, involving the CEO and CFO in conjunction with directorate management teams, to consider the impact and required actions of any emerging issues. Mitigating actions are taken as required throughout the year, and updated forecasts are fed directly back in to the strategic plan.

The principal risks are identified and agreed as set out on pages 44-55. The strategic plan is then stress tested against these risks to check viability. The results of the stress testing, including a combination of individual scenarios, are reviewed, discussed and challenged by the Board. The availability of mitigating actions is considered and an action plan is developed if they are not deemed sufficient.

The key assumptions within the Company's base financial forecasts include:

- Expenditure will not exceed planning assumptions used to calculate revenue controls.
- Rewards and penalties for performance against regulatory targets will be in line with current expectations.

STRATEGIC REPORT (continued)

- Inflation will be in line with forecasts published by the Office for Budget Responsibility in March 2018.
- Continued access to markets to secure raise finance, at rates appropriate to our current credit rating.
- No changes in capital structure other than borrowing / refinancing to fund planned capital expenditure.

Assessment of viability
The current strategic plan represents the Directors' best estimate of the future prospects of the business. To make the assessment of viability, the strategic plan has been stress tested over the 10 year period to assess the potential impact of the Company's principal risks and uncertainties and the effectiveness of available mitigating actions. Scenarios that have been assessed include those detailed below, along with a combination of several scenarios:

Scenario	Link to principal risks & uncertainties	Impact on long-term viability
Economic outlook The strategic plan utilises inflation forecasts from the Office for Budget Responsibility and an implied future LIBOR curve based on current market expectations. Both high and low inflation and interest scenarios have been modelled, along with a scenario where a spike in inflation occurs in between bills being set and contractual inflation / debt indexation being applied. This impacts revenues, expenditure and interest costs.	Financial resilience	High or low inflation both impact long-term viability in different ways. High inflation increases the value of our indexed-linked debt – putting pressure on gearing and other financial ratios whereas low inflation can reduce profitability due to lower revenue.
High expenditure Expenditure over and above the level assumed in the plan could arise due to a number of reasons, e.g. to address operational performance issues, due to input price pressure, or inability to deliver efficiencies. We modelled scenarios where opex and capex allowances were overspent in general, as well as some more specific and extreme scenarios including a substantial movement in the energy markets (high opex) and the permanent loss of a major water source (high opex for immediate corrective action followed by significant capex to construct an alternative supply). Unfunded pension liabilities are not a plausible scenario for Bristol Water.	Health, safety & environment Customer satisfaction Operational resilience Water quality Business resilience Financial resilience	Expenditure levels higher than those assumed in the revenue determination put pressure on financial ratios and would require additional funding through either debt or equity.
Poor performance against performance commitments The strategic plan assumes a level of rewards & penalties based on current expectations, impacting both revenue and RCV up to 2020 and revenues after 2020. This scenario was considered both in isolation and in conjunction with a continued underperformance in future AMPs.	Health, safety & environment Customer satisfaction Operational resilience Water quality Financial resilience Organisational change	Revenue penalties have an impact of financial viability in the near future and put direct pressure on financial ratios. RCV penalties are spread over a longer period of time, reducing the immediate impact on financial viability but delaying the benefit to customers.

STRATEGIC REPORT (continued)

Scenario	Link to principal risks & uncertainties	Impact on long-term viability
Uncertain regulatory environment There is a substantial amount of uncertainty regarding the regulatory environment, including the determination of revenue for future AMPs. A range of possible scenarios and outcomes have therefore been modelled.	Regulatory change Business planning process and assurance	The determination of revenues could have a significant impact on financial viability. The PR19 methodology is challenging, but the determination will be made in the context of the broader regulatory model.
Fines Substantial fines could arise due to legal breaches (including data breaches under the General Data Protection Regulations) or severe Health & Safety incidents. The impact of a substantial fine has been considered in conjunction with an increase in expenditure to address the underlying issues. This is an example of an exceptional event that could affect costs and cash flows.	Health, safety & environment Water quality Cyber security and data protection	The financial impact of a fine and any remedial action will but put pressure on ratios and require additional funding through debt or equity.

Mitigating actions available to the Company include restricting dividend payments, financial restructuring, and timing of discretionary operating expenditure and/or pro-active capital expenditure. Some of the scenarios modelled demonstrated that additional shareholder support may be required towards the end of AMP7. What actions are taken will depend on the circumstances at the time, including the severity and duration of the scenario. The Company and shareholders are committed to maintaining a credit rating that is above the minimum investment grade level and currently maintains Moody's Baa1. In an extreme scenario, a fall in rating to the minimum investment grade level would tighten the financial constraints that the business is managed under, whilst continuing to meet Regulatory Licence obligations and covenants.

The only group company relevant to the viability assessment of Bristol Water is the retail service functions provided by Pelican, which are inherently considered within the scenarios set out above.

Review and assurance
The results of the stress testing for the ten-year period to March 2028 have been reviewed and challenged by the Board, including combinations of the individual scenarios listed above. Following this review the mitigating actions, along with the protections that exist under the regulatory regime, are deemed to be sufficient to maintain financial viability over the assessment period. We therefore consider we are well placed to meet the challenges that our customers and regulators will expect of us. Therefore the Directors have a reasonable expectation that the company will continue in operation and meet its liabilities as they fall due for the ten-year period ending March 2028.

Our external auditors, PricewaterhouseCoopers, set out the extent of their review of our viability statement in their audit report on page 151.

Viability statement
Based on this assessment, the Directors confirm they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the ten-year period ending March 2028.

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

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY

Risk Management Framework
Risk management is the co-ordinated activities that support the control and direction of the organisation with regard to risk. This is a continuous, developing, coordinated process with the aim of embedding risk management into all business processes, from strategy development through to delivery of objectives.

We recognise the importance and benefits of timely identification, assessment and management of risks that may impact our ability to achieve our strategic objectives. Bristol Water uses a series of complementary risk assessment processes and associated tools applicable to specific areas of operation for detailed risk capture, assessment and management. These detailed risk processes (including the Operational Risk Register) inform the Corporate Risk Register, which is maintained and regularly updated to manage risk at a strategic level.

These can be considered the constituent elements of our Risk Management Framework. This system is designed to ensure that information about risk is adequately reported and used as a basis for decision making and accountability at all relevant organisational levels.

Our 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
- Ingrained in the organisation's culture

The 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. This includes setting and reviewing the corporate risk appetite.

- **Internal Audit** is responsible for reviewing and reporting on the effectiveness of the company's controls to minimise principal risks. The **Financial Planning & Analysis** team are responsible for reviewing management's practices to manage risk and reporting to the ARAC.

- **Senior Management** is responsible for the implementation of the Risk Management 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. Identified asset owners are accountable for monitoring, reporting and rectifying any unacceptable risks associated with the assets they are responsible for.

STRATEGIC REPORT (continued)

Figure 9: Our Risk Management Framework

Bottom-up review
An explicit risk assessment and identification exercise is performed every quarter, with impacts, likelihoods and controls being assessed by relevant risk owners from across the business. These updates are reviewed by the central Financial Planning & Analysis team as well as by the responsible director. Risk owners regularly monitor any changes to their risks through weekly and monthly performance reviews, incident debriefs, and other business-as-usual activities.

Top-down review
The Executive Management Team (EMT) collectively reviews the updated Corporate Risk Register each quarter. This review carefully considers the changes to the principal risks and the mitigating actions being taken. This analysis is presented to the ARAC and to the Board at least twice a year, with actions assigned to the business to fulfil.

Enhancements to risk assessment processes in the current year
The Corporate Risk Register has been improved for 2017/18, and a new Risk Template has been developed to fully capture the required risk information from risk owners. These new tools facilitate a more transparent reporting and review of all risks to the Board and ARAC.

A new risk categorisation has been developed to allow us to better explain the nature of the risks being reported. Risks are now categorised as follows:

Category	Definition
Operations	Risks that impact on the day-to-day operations of the company. These risks relate to health, safety and environment, water resources, water quality, customer satisfaction, asset management, business resilience and operational resilience.
Corporate	Risks that impact on the corporate management of the company. These risks relate to financial sustainability, supply chain management, cyber security and data protection, and HR management.
Regulatory and Legal	Risks that arise from the legal and regulatory environment in which we operate. These risks include general regulatory and legal compliance, as well as change in the regulatory regime and risks with the business planning process.

STRATEGIC REPORT (continued)

Throughout the year the Board has challenged and influenced our decision making on risk reporting. As well as the regular twice-yearly review of the risk position, ARAC held a deep-dive session to review and challenge the principal risks in more detail. The new tools and categorisations referred to above were also reviewed and formally approved in this additional session.

After the year end, a further additional session was held to agree the presentation of the risks under the new format in the Annual Report. This utilises the new risk categorisation and is a direct result of the improvements to risk reporting made in this financial year.

Principal risks

The principal risks are described on the following pages together with the mitigating actions and the perceived change in these risks since the previous financial year.

Risks have been selected for inclusion on a residual risk basis, considering their potential impact, likelihood, the effectiveness of existing controls, and the company's risk appetite.

The risk appetite has been set by the Board who recognise that Bristol Water operates within a complex regulatory environment and it is not viable to fully mitigate all the risks it faces. In general, there is a lower risk appetite to activities that are key to delivering core operational services, such as health and safety, providing safe drinking water, managing the environment and pollution, and the prevention of catastrophic events. Bristol Water seeks to mitigate these risks as fully as possible. A higher risk appetite has been adopted for a small number of risks relating to people and training, where the company is willing to operate at higher risk levels and seeks innovative ways of attracting and retaining a motivated workforce.

This is a snapshot of the Company's current risk profile rather than an exhaustive list of all the risks the Company faces. New risks may arise, existing risks may recede, or the rankings of these risks may change as circumstances evolve.

The following table details the risks that were disclosed in last year's Annual Report, but which are not explicitly referenced in the principal risks that are disclosed this year.

Risk	Commentary
Water Resources	Our water resources position has improved over the last year, and the successful delivery of the Southern Resilience Scheme has improved our resilience in this area.
Supply Chain Failure	A significant portion of Bristol Water's activities are outsourced to external providers. A lot of risks associated with this are interconnected with other principal risks being disclosed (e.g. Financial Resilience, Operational Resilience, and Regulatory and Legal Compliance) and therefore, supply chain failure is not disclosed separately.
Asset management and capital investment risks	These are not disclosed separately as they are covered by our disclosure of other principal risks where necessary, e.g. health, safety and environment, operational resilience, business resilience and financial resilience.

STRATEGIC REPORT (continued)

Name: Health, Safety and Environment		
Operations	**Risk Description and Potential Impact:** The nature of Bristol Water's business means that its employees, contractors and the public are potentially exposed to a large range of health and safety risks. These risks are increased due to large number of contractors being engaged to carry out work on behalf of the organisation. A severe health and safety accident is most likely to relate to a high risk activity such as excavation, working with electricity, with gases or chemicals, or in confined spaces or at height. In addition, failure to maintain the operational estate at a level that complies with relevant regulations may result in an incident; errors may be made by operational teams which might impact on asset serviceability and lead to unsafe working (e.g. over dosing of chemicals); or staff may work in some geographical areas where criminal activity is higher than average and staff could be attacked or abused. An incident could also cause significant environment damage, for example an environmental incident during engineering projects; or accidental release of stored chemicals or fuels. More frequent minor events can also occur, such as discolouration of local watercourse caused by dewatering of excavation. If the risk of a health and safety risk was left unmitigated, this could lead to injury or death. In the event of a serious accident, Bristol Water could be prosecuted and fined, which would have a significant impact on its reputation, as well as an impact on its employees and customers.	**Mitigating Actions:** Systems and policies are in place to maintain an awareness of requirements detailed in HSG65. An independent review of Health & Safety culture was carried out in April 2017 and a series of initiatives and campaigns are in place to drive improvement, these include Director safety inspections, regular toolbox talks for operational staff to raise H&S awareness, company-wide launch of the 'Take 5 for Safety' Initiative, launch of new site inspection system incorporating corrective action plans, improved hazard reporting systems and timely response and correction of reported hazards, and an estates department maintenance programme. There is an improved lone worker system in place and staff are instructed not to put themselves in danger. Throughout Bristol Water there is a health and safety induction programme, on-going training (competent operator framework), monitoring, risk identification and assessment, and regular H&S committee meetings. In 2018/19 the adoption of new H&S software management system is planned. The H&S team has expanded in 17/18 and now has greater capacity. A procedural review is planned for 18/19 with a focus on operational safety leadership and accountability. Bristol Water's Environment Manager acts as key point of liaison for schemes and works with contractor environmental teams to deliver projects within environmental constraints. Site waste management plans are in place for key projects producing large amounts of waste, structured environmental surveys and habitat surveys are performed including protected species and heritage or archaeology. There is on-going work within AMP6 to address existing risks of fuel and chemical storage including routine maintenance on existing chemical management systems, controls and procedures on chemical management, and bunding of site equipment.

STRATEGIC REPORT (continued)

Name: Health, Safety and Environment (continued)		
Operations	**Risk Description and Potential Impact (continued):** An environment incident could cause pollution; environment damage; or impact on protected species and environments. Major or minor events could lead to complaints registered to Environment Agency, costs to the business and potential prosecution.	**Mitigating Actions (continued):** Internally there is oversight from the Executive, and continuing focus at Director and Board level. A new Head of Health and Safety role was created and filled during the year, reporting directly to the CEO. Health and safety systems have been tested by external audit in the last 3 years, and by Price Review Assurance Programmes.
	Movement in Residual Risk Exposure: No movement in residual risk exposure; this is an on-going risk which is mitigated by a number of existing and new controls. Overall risk scores reflect concerns over potential incident significance, probability and sufficiency of mitigation measures in place. Control and supporting procedural documentation gaps are evident in the health and safety management system and these controls are not being robustly embedded in everyday practice. Gaps in suitable and sufficient risk assessments are evident and procedural control and governance of activities in some areas is poor. Looking ahead, we'd expect the residual risk exposure to decrease as health and safety controls and mitigations are embedded into the company.	
	Link to Strategy: Impact on ODIs: Biodiversity index and Discharge compliance	
Executive Responsibility: Chief Executive Officer, Asset Management Director		

Name: Customer Satisfaction		
Operations	**Risk Description and Potential Impact:** High quality and consistent customer service is one of Bristol Water's top priorities and we work hard to prevent issues arising and provide high quality, reliable supplies for our customers. There's a risk that a failure that at any point across the business could lead to Bristol Water failing to adequately meet our customers' needs. For example, network maintenance or unplanned operational incidents (e.g. discolorations, supply interruptions, or high irons) could lead to increased supply events. This would result in increased customer contacts and the potential for dissatisfied customers.	**Mitigating Actions:** We have a Customer Challenge Group, called the Bristol Water Challenge Panel which holds us to account on our customer engagement processes. As an independent group they are representative of our customer base and challenge us to ensure we are representing our customer priorities in the business planning process. There is a strong focus across the business on improving customer service. This is directed by our company wide customer experience strategy which details the vision and steps required to retain our position of number one water company as measured by ICS and aim to become number one Utility.

STRATEGIC REPORT (continued)

Name: Customer Satisfaction (continued)		
Operations	**Risk Description and Potential Impact (continued):** Low quality delivery to our customers and poor customer service performance would lead to a low position in the service incentive mechanism ("SIM") measure used by Ofwat to assess our customer service performance against other companies in the industry. This could have a negative impact on our customer relationships, reputational damage and potential ODI penalties.	**Mitigating Actions (continued):** Our current action plan has numerous initiatives which are broken down to deliver improvement against each factor that impacts our SIM performance (e.g. call backs, additional resource, new systems (live chat, real time feedback), customer training, and the complaints action group) and this is delivered via a monthly cross company group chaired by our Chief Customer Officer. There is an on-going training programme for all customer facing staff and frequent reviews of performance (including a shadow survey in non-SIM months).
	Movement in Residual Risk Exposure: The residual risk exposure has increased during the year. There is a strong focus on customer service across the organisation and mitigating actions and controls in place. However, a number of operational incidents in 2017/18 have impacted the SIM result and customer service will continue to be a key focus for the coming year and looking ahead to the 2020-2025 business plan as part of the CMEX framework. Looking ahead we'd expect the residual risk exposure to reduce in line with the strong focus the business places on customer service and satisfaction	
	Link to Strategy: Impact on ODIs: Customer satisfaction from surveys; overall SIM score	
Executive Responsibility: Chief Executive Officer		

Name: Operational resilience		
Operations	**Risk Description and Potential Impact:** Operational resilience is a risk category in which risks relating to day-to-day operational performance are considered. These are risks that may occur in the course of ordinary business, for example missing leakage targets, metering targets, a strategic mains burst leading to interruptions to customer supply, or supply chain management, as well as a number of lower scoring risks.	**Mitigating Actions:** Our new leakage action plan has been implemented to target the excess leakage levels within the year, and put Bristol Water in a good position for future years. This includes implementation of an improved leakage strategy; improved assessment of network to ensure resources are sent to the right locations; enhanced Leakage Management Information reports; deployment of additional staff in key areas; improved processes and meter installation methods, and service level agreements; and strategic targeting of mains for replacement.

STRATEGIC REPORT (continued)

Name: Operational resilience (continued)		
Operations	**Risk Description and Potential Impact (continued):** Bristol Water may fail to meet regulatory targets relating to operational performance leading to penalties, for example failure to meet the required AMP6 level of leakage, or meter penetration. There's also the risk of an operationally significant burst on strategic main, which would impact customer delivery and could cause a failure to meet our obligations.	**Mitigating Actions (continued):** We proactively manage our supply chain and closely monitor key contractors and their performance.
	Movement in Residual Risk Exposure: A significant number of controls are in place across the business. Our water resources position has improved, we have a revised drought plan, and the Southern Resilience Scheme is now operational. However the impact of these controls on operational performance (e.g. leakage) takes time to materialise, and the performance in year to date increases likelihood of leakage risk crystallising.	
	Link to Strategy: Impact on ODIs: Customer satisfaction from surveys; Overall SIM score; Leakage; Unplanned customer minutes lost per property per year.	
Executive Responsibility: Asset Management Director		

Name: Water Quality		
Operations	**Risk Description and Potential Impact:** Excellent water quality is fundamental to providing the level of service our customers expect from us. There's a risk that Bristol Water fails to meet the high water quality standards required, and becomes unable to provide safe, clean water. Harmful or unapproved substances could be introduced to our water sources e.g. increased levels of metaldehyde coming in to the Gloucester and Sharpness Canal from the lower reaches of the River Severn due to use of metaldehyde as a pesticide. If this risk wasn't actively managed, to ensure metaldehyde is dealt with adequately, then the quality of our water supply could be negatively impacted.	**Mitigating Actions:** Catchment management initiatives have been very successful in mitigating the risk of increased metaldehyde entering the water supply. Bristol Water continues to invest in new treatment processes, renovation of water mains and partnerships with catchment stakeholders. We work with DWI, Environment Agency, water companies, manufacturers and suppliers to continually review and improve our processes. Water is sampled daily at treatment works, service reservoirs and consumers' taps and rigorous internal water quality reporting is in place. Externally our water quality is tested by DWI, Defra, and Environment Agency Reporting.

STRATEGIC REPORT (continued)

<table>
<tr><th colspan="3">Name: Water Quality (continued)</th></tr>
<tr><td rowspan="3">Operations</td><td>Risk Description and Potential Impact (continued):

If we were unable to supply some of our customers with safe, clean drinking water, this would have a negative impact on our customers, which may adversely impact our reputation as a result. Bristol Water could be prosecuted or fined for not meeting water quality standards, and ODIs could be missed. If the incident was severe enough, this could have a resulting impact on the company's financial sustainability.</td><td>Mitigating Actions (continued):

We prepare Drinking Water Safety Plans to ensure that risks to water supply are understood, monitored and mitigated.</td></tr>
<tr><td colspan="2">Movement in Residual Risk Exposure:

On-going focus on quality standards mean there is no change to risk to Bristol Water</td></tr>
<tr><td colspan="2">Link to Strategy: Impact on ODIs: Mean zonal compliance.</td></tr>
<tr><td colspan="3">Executive Responsibility: Director of Strategy and Regulation</td></tr>
</table>

<table>
<tr><th colspan="3">Name: Business Resilience</th></tr>
<tr><td>Operations</td><td>Risk Description and Potential Impact:

Business resilience considers the risk that Bristol Water's operations are significantly impacted by an external event or hazard situation. This could be an event leading to prolonged unavailability of significant numbers of staff or specialists caused by e.g. a flu pandemic; impediments from external organisations e.g. long term loss of power supplies to major treatments works affecting output from the works; prolonged denial of access to, or total loss of, critical offices e.g. Head Office unusable because of fire. There is also a risk of the failure of critical infrastructure such as dams, service reservoirs, large mains, pumping station or the loss of a major water source, which could not be repaired for prolonged period.

Were any of these risks to materialise, they could have a significant impact on the organisation. A pandemic could lead to prolonged staff shortages which would impact our ability to maintain our operations across the business. Services and materials provided by other organisations could be compromised.</td><td>Mitigating Actions:

Business continuity plans are in place which focus on dealing with a reduction of staff due to pandemic illness, with critical activities and staff identified. Links established with agencies (including Civil Contingency community) that provide information and advice to assist in day-to-day and long-term planning. Continuity plans provide some mitigation for loss of power (e.g. emergency power generation, rezoning, emergency communications systems), and buildings are maintained to appropriate standard of fire protection and security. Disaster recovery procedures in place with alternative sites identified for critical staff, and processes exist for systems and backup data.</td></tr>
</table>

STRATEGIC REPORT (continued)

Name: Business Resilience (continued)		
Operations	**Risk Description and Potential Impact (continued):** Loss of a major treatment works, or head office could cause disruption to normal operations, potential to cause serious operational incidents, regulatory non-compliances, customer dissatisfaction, additional expense, reputational damage, and loss of services including major communications and IT systems. Critical infrastructure failure could lead to failure to supply some of our customers with safe drinking water.	**Mitigating Actions (continued):** Fire alarms and emergency procedures regularly tested and resilience built into the server room. There are systems in place for rapid response to incidents and breaches, and contingency plans (residual storage) in place if a breach were to occur.
	Movement in Residual Risk Exposure: No movement in residual risk exposure. This remains a significant on-going consideration for the company but there are controls and mitigations in place and there has been no material change to the risk level in the year. Looking ahead, a Strategic Asset Management Plan will be implemented to enhance asset resilience.	
	Link to Strategy: Impact on ODIs: Customer satisfaction from surveys; Overall SIM score; Quality of raw water sources	
Executive Responsibility: Company Secretary, Asset Management Director		

Name: Cyber Security and Data Protection		
Corporate	**Risk Description and Potential Impact:** The risk of customer or employee data breaches, with resulting loss of significant amounts of personal data. The loss of head office data and corporate network could be the result of cyber attack. There is also the threat of data corruption for critical datasets, loss of systems and prolonged recovery times. Our network and control systems could be infiltrated, directly affecting water supply to customers. Failing to protect personal data could result in a penalty fine of up to £500k under the current Data Protection Act 1998.	**Mitigating Actions:** The GDPR project delivered on 25th May 2018 using a Risk based approach. A project has been set up to mitigate the residual risks to ensure full compliance with GDPR. Achievements:- Company-wide training delivered to all employees and the Board, Commercial contracts with our High Risk suppliers updated and signed, Privacy Notice updated and Live, Renal Care Patients have been contacted for Consent, Subject Access Processes Implemented, Data Discovery completed, High Risk Processes mapped and GDPR risk identified. Bristol Water's Risk Based approach has been assured externally by PA Consulting.

STRATEGIC REPORT (continued)

<table>
<tr><th colspan="3">Name: Cyber Security and Data Protection (continued)</th></tr>
<tr><td rowspan="3">Corporate</td><td>Risk Description and Potential Impact (continued):

From May 2018, under the new General Data Protection Regulation (GDPR) and NIS Directive, the penalty fine could be up to 4% of worldwide turnover or €20m, whichever is the higher. The impact on our business and operations, and the reputational cost with customer satisfaction and loss of stakeholder confidence may also be significant and this could be reflected in the SIM survey score.</td><td>Mitigating Actions (continued):

GDPR Day 2 is in the planning stage and will focus upon:
- Cyber Security and the Cyber Essentials+ accreditation. This will be implemented under the Cyber Programme within IT. Cyber Essentials + is a stepping stone to our Cyber strategy and we are looking to implement ISO27001 management framework to support the obligations of the NIS Directive.
- Data minimisation of structured and unstructured data
- Process Improvements data management techniques.
Embed behavioural changes.</td></tr>
<tr><td colspan="2">Movement in residual risk exposure: Residual risk exposure is increasing, as the external threat is growing based on intelligence and capabilities.</td></tr>
<tr><td colspan="2">Link to Strategy: Impact on ODIs: Asset reliability – non-infrastructure; Customer satisfaction from surveys</td></tr>
<tr><td colspan="3">Executive Responsibility: Chief Customer Officer, Chief Financial Officer, Company Secretary</td></tr>
</table>

STRATEGIC REPORT (continued)

Name: Financial Resilience		
Corporate	**Risk Description and Potential Impact:** Financial resilience is a risk category in which risks relating to fraud, interest rates, volatile material costs, shareholder value generation, inflation, capital programme cost control, bank funding, and debt financing are considered, as well as a number of lower scoring risks. Of these, the risk of adverse financial market movements and the potential for rising costs have been assessed as having the highest residual risk exposure. Cost risk, delivery risk and cost of capital risk also need to be closely managed, as there is an increased focus on efficiencies and less headroom. Volatility in the financial markets could have a significant impact on our organisation. In particular a change in inflation rates could impact the business due to our index linked debt and revenues; and movements in financial markets could impact interest rates and hence our cost of borrowing. In addition, instability in the supply markets could drive up prices and lead to supply issues. Energy costs, chemical prices and carbon taxes could rise meaning that Bristol Water costs could increase considerably and impact our financial performance and sustainability.	**Mitigating Actions:** Inflation rates and market movements are closely monitored as part of on-going financial oversight of the company. Financial position and performance is continually scrutinised across the business by management, the Executive and the Board. We adopt a rigorous budgeting process and conduct detailed quarterly reviews to highlight any corrective actions that may become necessary throughout the year. The quarterly review meetings are attended by the CEO and CFO, the results are communicated to the Board, and performance against the updated forecasts is closely monitored and reported. Bristol Water has an increased focus on alternative suppliers, and optimisation work and innovation is on-going, for example with power monitors being installed to characterise energy usage and provide management data. Our energy policy and purchasing strategy has been signed, and contracts have been established with chemical suppliers offering longer term security.
	Movement in Residual Risk Exposure: No change in residual risk exposure. There is an on-going risk of sustained higher prices and uncertainty in the financial markets, but the close management oversight of financial performance means that corrective actions would be put in place, were this risk to materialise.	
	Link to Strategy: Impact on ODIs: Credit rating; Post-tax return on capital	
Executive Responsibility: Chief Executive Officer, Chief Financial Officer		

STRATEGIC REPORT (continued)

Name: Regulatory and Legal Environment

Regulatory and Legal	**Risk Description and Potential Impact:**	**Mitigating Actions:**
	Bristol Water operates in a complex and evolving regulatory and legislative environment. Bristol Water has to anticipate and adapt its operations to changes in policy that affect the water industry and business organisations in general. Changes to the regulatory environment and the licence within which Bristol Water operates can present risks and opportunities to the financial position of Bristol Water. Over the long-term, regulatory change can include risks and opportunities relating to reform of abstraction licencing and water trading and the potential for residential customers to have a choice of retailer. Our regulators are accountable to Parliament for operating in line with the policy framework that the Government sets. In September 2017 DEFRA published a Strategic Priorities and Objectives Statement which described their priorities for Ofwat and the water industry in pursuit of an industry that works for everyone Regulatory change can also arise from the need to invest to deliver water quality and environmental improvements. Such changes are considered independently from the economic regulation of the water industry.	Bristol Water engages with its stakeholders, industry bodies, other participants in the water sector and regulators in order to help shape the future strategy for the water industry. We emphasise the wider benefit to sector of the diversity of companies operating in the industry, reflecting the local community needs that companies such as Bristol Water must meet. In our long-term ambition document Bristol Water…Clearly we set our "trust beyond water" vision for Bristol Water and the future of the sector. We believe that companies that want to be around for the decades to come must ensure that society and the environment are at the heart of everything they do. We set out how our plans and actions anticipate and help to shape changes in the regulatory environment. This ambition has been communicated widely at industry platforms, through dialogue with customer and stakeholder forums and through trade media. Bristol Water has adapted successfully to previous industry changes, such as the introduction of business retail competition and we welcome further development of the water sector.
	Movement in residual risk exposure: The long-term risk exposure and potential opportunities are stable, reflecting a regulatory environment designed to encourage long-term investment in water services and the environment. There has been a recent increase in political interest in the water sector which echoes the topics considered in our mitigating actions.	
	Link to Strategy: Bristol Water…Clearly sets out how the strategy for Bristol Water is reflected in the long-term ambition context for our business planning process.	

Executive Responsibility: Director of Strategy and Regulation, Company Secretary

STRATEGIC REPORT (continued)

Name: Organisational Change		→
Corporate	**Risk Description and Potential Impact:** Due to a culture of change, people may become unsettled and therefore there is a risk of losing experienced people. The need to manage the aspirations of individuals and groups provides challenges, requiring strong leadership. There is a risk of single points of failure and lack of knowledge transfer, coupled with the same key individuals required to deliver different projects. This risk is increased by a shifting age profile, with the risk of multiple retirements in the next 5 - 10 year period. We are also competing for skilled staff with the largest new nuclear development within Europe, situated 20 miles from our Head Office. The impact of failing to retain key staff would be reduced resilience, increased vulnerability during incidents, potential inability to resource work, or poor quality work and errors. This could impact staff morale, lead to increased stress, and could prompt further resignations or under-performance.	**Mitigating Actions:** "Bristol Water...Clearly" sets out our long-term ambitions and strategic direction, which indicates that there will be on-going change within the business. Culturally people are becoming more resilient to change and viewing it more positively. In delivering the Transformation Programme we will learn from the past in terms of delivering good communication. There is a Talent Management programme in place, and increased focus on career planning, especially for high potential individuals. Internal recruitment and headhunting gives options to fill gaps as they arise and succession planning is in place. Actions from the results of our employee survey are being implemented, and include an increased focus on training and development. Our Resourcing Strategy and Learning and Development Strategies are in place to ensure we deliver against the People Plan. Audits are undertaken to ensure internal quality standards are delivered.
	Movement in Residual Risk Exposure: Residual risk exposure remains unchanged. Employees are settling in to the new structure and the talent management programme is having a positive impact and creating career paths for high potential, high retention risk individuals. However, there is an on-going high degree of change across the business, with continuing risk that operations are significantly impacted. The transformation programme will have a financial impact (cost) for the company; to build the infrastructure to support the new operating model; before delivering financial benefit in the longer term.	
	Link to Strategy: Impact on ODIs: Staff satisfaction survey	
Executive Responsibility: HR Director		

STRATEGIC REPORT (continued)

Name: Business Planning		
Regulatory and Legal	**Risk Description and Potential Impact:** Bristol Water updates its future plans and targets, adjusting them for new information and in the light of experience periodically. Bristol Water is developing our business plan for the next 2020-25 period. There is a risk that Bristol Water develops a business plan that has insufficient evidence to support the assumptions made, or does not have customer and stakeholder support for what it commits to delivering. This could result in a plan that was not deliverable, or may result in regulatory scrutiny and amendments. It may also not meet stakeholder and customer expectations. This would impact the financial performance of Bristol Water. The cost of delivering our plan is forecast in the cost, financing and service target assumptions made when controls are set by Ofwat on Bristol Water's regulated revenues. A poor quality business plan may imply expenditure levels insufficient to deliver service commitments that prove to be inefficient or unsustainable. This would have a resulting impact on Bristol Water's reputation and on the future of the business.	**Mitigating Actions:** The success of business planning relies on the performance of Bristol Water as a whole. Bristol Water is committed to business planning based on what customers and stakeholders have told us they want, at a price that they consider to be affordable. Investment continues to be required to deliver stretching targets for service levels and excellent customer services. A high quality business plan, which includes appropriate revenue and efficiency targets, will, after scrutiny by Ofwat, allow Bristol Water to finance the investment and activities which allows delivery of the services that customers and stakeholders want us to deliver. Our business planning process relies on the on-going governance of performance by the business. The 2020-2025 business plan has additional governance controls in place. Internal programme governance processes include Working Groups, an Executive Steering Group, PR19 Board Sub-committee and Board ownership of the decisions surrounding the business plan. Extensive customer research and engagement on the plan has assisted its development, supported by challenge from the independent Bristol Water Challenge Panel. External assurance includes use of third party external experts in both key elements of the business planning process and independent review for the Board of progress in preparing the plan with PWC. A long-term ambition document Bristol Water…Clearly and draft business plans have been published for consultation, setting out the choices that customers and stakeholders face.
	Movement in Residual Risk Exposure: In December 17 Ofwat published its Final methodology. Significant uncertainty has been removed from the PR19 programme as the final methodology was well signalled by the draft in July 17. The Price Review remains more challenging than previous reviews. Effective assurance processes are in place which, together with communication activities, ensures that a high quality business plan based on extensive customer and stakeholder engagement in place.	
	Link to Strategy: Bristol Water…Clearly sets out how the strategy for Bristol Water is reflected in the long-term ambition context for our business planning process.	
Executive Responsibility: Chief Executive Office, Director of Strategy and Regulation		

STRATEGIC REPORT (continued)

OUTLOOK

The main drivers of 2018/19 profitability are expected to be:

- treated water revenues – these are expected to increase from 2017/18 due to inflation (3.9%), the wholesale K-factor (0.3%) and correcting for some of the under-recovery of revenues in prior years.
- operating expenditure ("opex") – this is expected to increase slightly in 2018/19, with the main driver being an investment in business improvement activity and a transformation project as management implements efficiencies across the business.
- inflation or deflation – operating costs, capital expenditure and the Company's index-linked debt are subject to inflation based on RPI at various points in the year. Potential adverse impacts of high inflation or deflation are mitigated by the linking of the majority of revenues through the previous year's November RPI;
- energy costs – energy costs are significant for the Company, and consumption will fluctuate with demand and depending on which sourcing strategy is being utilised. Management expects costs to remain volatile in the future and to mitigate the effect of adverse movements the Company's policy is to monitor prices and enter into appropriate forward contracts to "lock in" future supply prices. The Company has fully hedged its exposure to energy commodity costs for 2018/19, and has delivered a number of initiatives designed to improve energy efficiency;
- socio-economic conditions – significant changes in the socio-economic conditions of customers may impact upon recovery of billed amounts;
- weather – severe weather patterns can affect the profitability in various different ways. Measured income can be affected by changes in volume consumption, chemical and power costs can be affected by raw water quality and availability of different water sources; and
- network maintenance costs can be affected by mains burst activity.

Capital expenditure for the 2018/19 year is expected to be a slight increase on 2017/18. The programme includes increased levels of mains replacement and metering, and a larger number of smaller projects compared to recent years which have been dominated by the Southern Resilience Scheme.

Case Study: Freeze thaw

What happened? In late February, the Met office issued a yellow/red warning across the South West and other parts of the country for wind, snow and ice. When we experience rapid changes in temperature from freezing to mild, the impact on the ground conditions and the material that some of our pipes are made from typically leads to an increase in bursts and then subsequently to higher leakage. This spring was no exception, and the rapid thaw period between Thursday 1st and Saturday 3rd March 2018 following a period of cold weather saw a significant impact on the outbreak of burst mains in a relatively short period. The chart below shows a temperature swing of 16 degree Celsius in less than 48 hours and was significantly greater than experienced in other cold periods.

This resulted in over 250 burst mains in March 2018, of which more than 70% occurred in the first week alone. As a comparison, the 5-year average for burst mains in the month of March is 68. As a result, leakage reports were also high and the volume of customer complaints increased including customers calling us about leaks from their own pipes on their property.

STRATEGIC REPORT (continued)

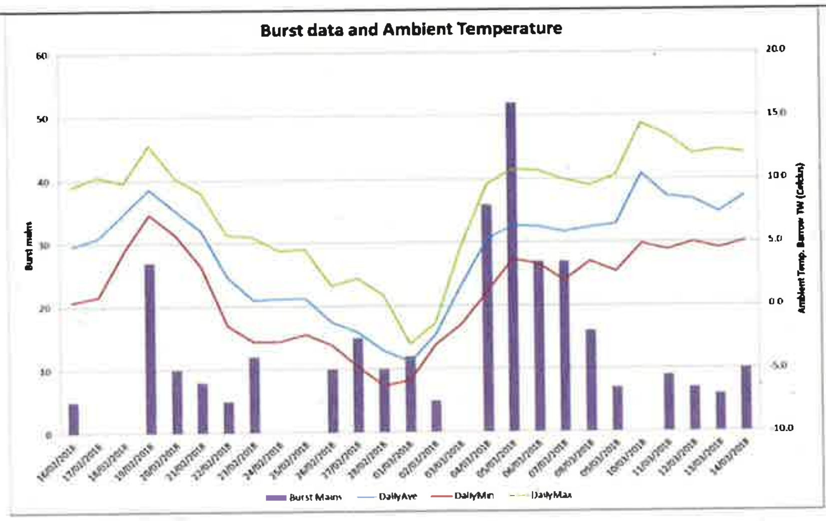


Figure 10: Temperature variations and impact on burst mains during freeze/thaw conditions

Three tower blocks in Dove Street, (Bristol City Centre) were severely affected, as a damaged high voltage cable meant the repair to the main was particularly difficult. The other incident of note affected 88 properties that were interrupted for more than 12 hours (but less than 24) resulting from a burst in Tweentown, Cheddar. In both cases the interruption event started at just before midnight on 4th March and was repaired by mid-afternoon the following day, with the response time reflecting the health and safety considerations in making the repair.

What did we do? To minimise the impact of conditions like these, we have a procedure for dealing with operational and business continuity called the Severe Weather Task Force (SWTF) and this has been in place since the cold weather events in 2009/10. In November 2017 the SWTF met to prepare for the 2017/18 winter period and make sure we were operationally ready. On 23 February 2018, following confirmation of the cold weather forecasts, the SWTF was convened to prepare and plan for the cold weather. This forward planning and the mobilisation of additional resources meant we were able to respond quickly and in fact the average time taken to respond to burst mains did not increase during this event. When the worst happened, and our customers were without water, our colleagues rallied round and volunteered to help by hand delivering bottled water to customers affected at Dove Street.

How did we compare? Less than 500 customers experienced supply interruptions that exceeded 12 hours. Bristol Water had sufficient resource throughout this incident and the forward planning worked very well. The national news coverage at the time highlighted the severity of conditions with several regional areas affected. In London and the Thames Valley, over 20,000 had their supplies interrupted due to the thaw.

Facts and figures:

- 316 total bursts
- 197 customers experiencing low pressure
- 5,749 customer contacts including phone, email, social media. 1/3 of these calls related to customers' own frozen pipes
- Average water temperature entering the supply network: 5.71 degrees Celsius

Mel Karam
Chief Executive Officer
13 July 2018

CORPORATE RESPONSIBILITY REPORT

As a regulated water company, we provide an essential service to the whole community in our area, and in so doing, we recognise that the expectations of our various stakeholders are wider and higher than those of a purely commercial entity. We set out to meet those expectations, by taking a socially responsible position throughout our whole business.

Our customers are always at the heart of our decisions and we strive to provide them with excellent quality water, at an affordable price and deliver excellent customer experiences, but we also understand that our activities can have an impact on the communities we serve and the environment that we steward. We passionately work towards having a positive effect on the environment and all our stakeholders.

Our reputation is important to us and that extends to being good to do business with, and to work for and so we pay close attention to the needs of our employees and contractors as well as developing close collaborative relationships with our suppliers. This approach reflects our determination to be a force for good in our community and is reflected in our mission to be "a company that our communities trust and are proud of. To deliver excellent experiences and create social and economic value."

This report provides an overview of the work we have done to embrace responsibility for our corporate actions and to pursue our goal of having a beneficial effect on our environment and surrounding communities.

Customers 59
- We understand who our customers are 59
- We understand what our customers want 60
- We are constantly listening to our customers 61
- We use every opportunity to engage and get feedback 63
- We use customer insight to make decisions 64
- How we communicate with our customers 64
- How we support our customers 65

Environment 65
- Water efficiency 65
- Biodiversity 65
- Regulatory commitments 66

Community 67

Employees 67
- Learning and development 67
- Health, safety and wellbeing 68
- Equality and diversity 68

Suppliers 70
- Working in partnership 70
- Modern slavery 70

CORPORATE RESPONSIBILITY REPORT (continued)

Customers

Our customers are our priority and as well as the improved service performance we have reported in the strategic section, here are some of the other ways we are working to improve our customer care and the culture of our organisation.

With nearly 500 employees in a diverse range of roles it is vital that all our people share our vision of what good customer service looks like, and are empowered to deliver it.

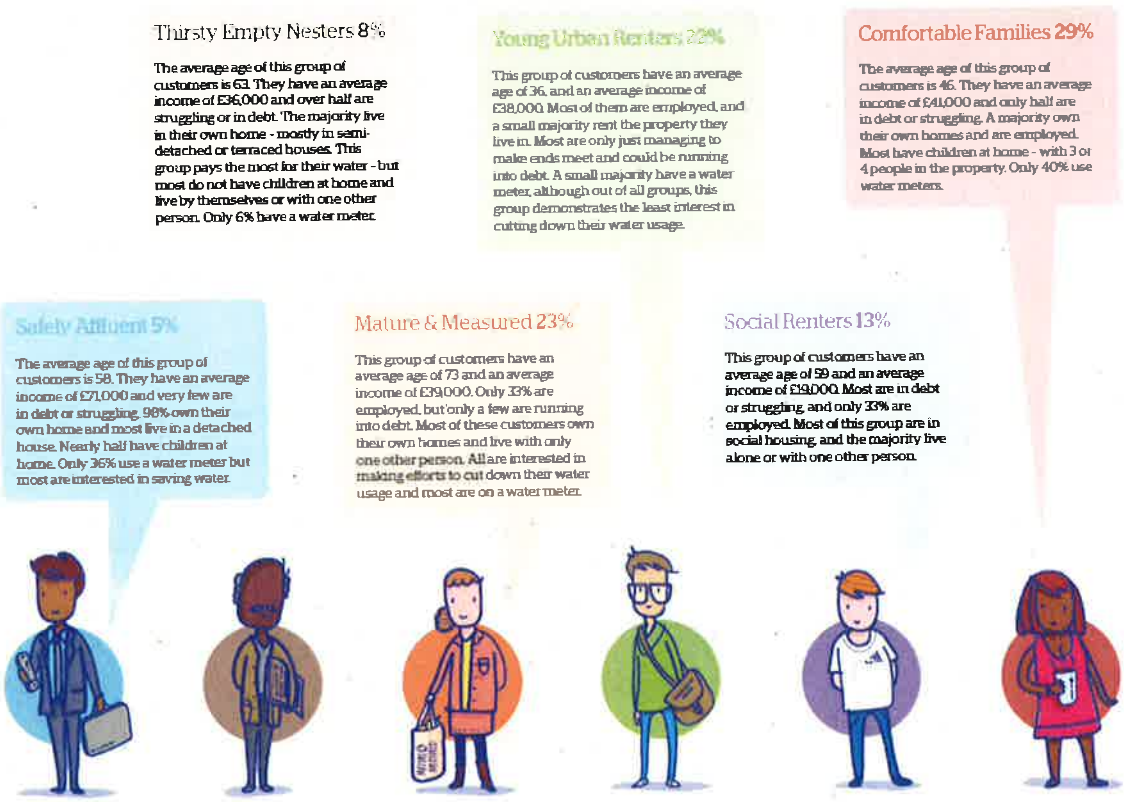


Figure 11: Customer Segmentation

We understand who our customers are

In 2017 we conducted a segmentation exercise using our customer data to better understand who our customers are and to better understand their individual needs, so that we can deliver a better service. The personas provide a framework within which future research can explore the variation in views among different customers. We have already gained valuable insight by using our data to recruit members for our new Customer Water Forum and have also used the segmentation to target customers in our new metering radio campaign. The segmentation enabled us to target our communication by using different messages which are more likely to appeal to different groups. We have already gained valuable insight by using our data to recruit members for our new Customer Water Forum and have also used the segmentation to shape messages for different customer groups in areas like increasing the efficiency of water use.

CORPORATE RESPONSIBILITY REPORT (continued)

We understand what our customers want

We have developed a better understanding of customer priorities from a range of research over the years. In 2017, we refreshed our understanding of customer priorities though conducting three focus groups, two online panels and our most recent annual survey and three focus groups of different customer segments. These were designed to complement and refresh the on-going research, to better understand some of the reasons behind the priorities customers choose and to start to understand how different customer segment views may differ.

Whilst overall the top priorities of Bristol Water customers have remained largely unchanged with reliability, water quality, and affordability being the main priorities, our segmentation has helped us gain some specific insight that helps inform our strategy. For example; customers on a social tariff prioritise helping people who cannot afford their bills and customers who have experienced a disruption to water supply prioritise having a regular water supply and responding quickly in emergencies.

Figure 12: Customer preferences and current perceived performance

CORPORATE RESPONSIBILITY REPORT (continued)

We are constantly listening to our customers

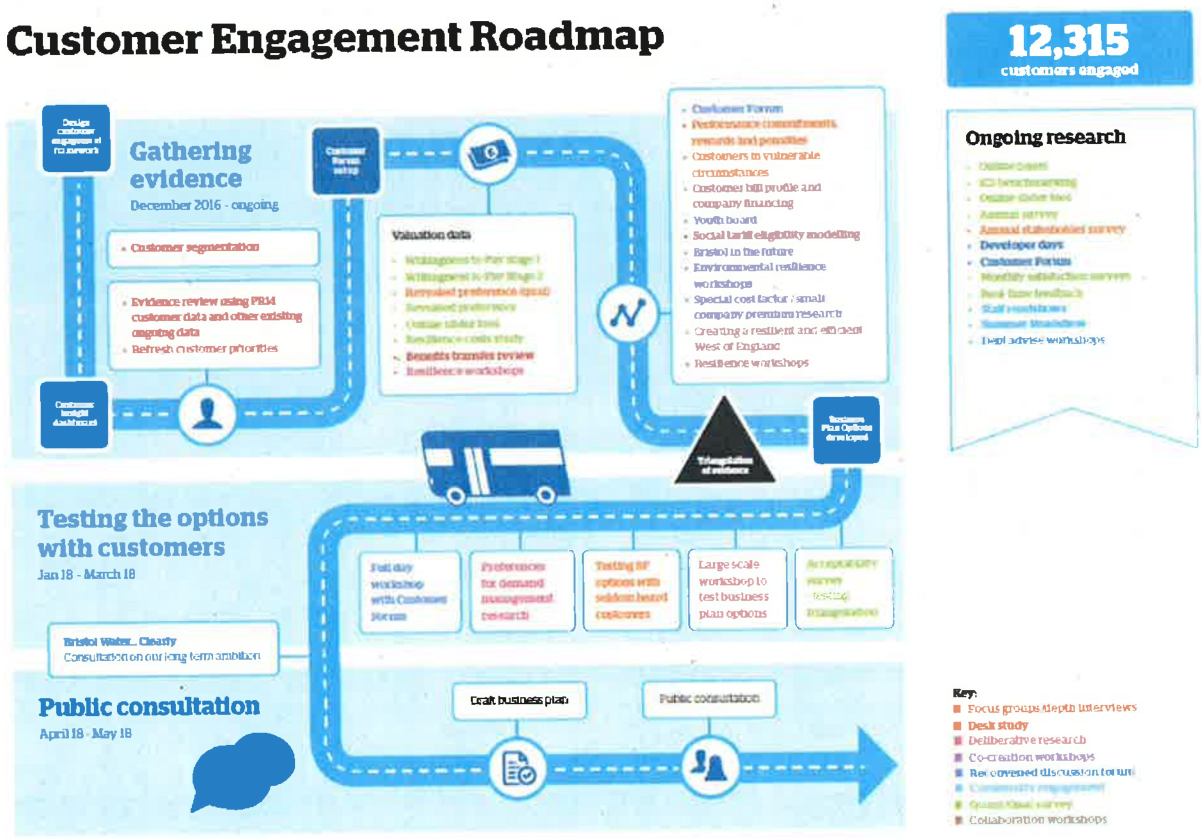


Figure 13: Customer Engagement Roadmap

Customer Engagement Framework
In 2017 we developed our customer engagement framework which sets out how we engage with customers for PR19 and beyond.

We developed a range of engagement activities that are now part of business as usual, helping to make sure that day-to-day customer contact is used to inform our business activities.

Dashboard
We developed our customer dashboard, a simple reporting tool which makes it easy for the business to take the customer perspective into account in everyday decision making. It tracks a range of customer data including inbound calls, complaints and customer priorities.

Youth Board
In January we established our Youth Board. The purpose of the Youth Board is to bring future customers into Bristol Water's long-term decision-making as investment decisions made today will affect customers of tomorrow.
The Youth Board comprised 21 sixth formers. Panellists were required to participate in two 'Board meeting days' with additional activities to complete over a 6-week period. The task included:

- Being set a real business problem, working in teams to devise innovative solutions for managing future water demand
- Providing feedback on the company's long-term business plans

CORPORATE RESPONSIBILITY REPORT (continued)

Figure 14: Youth Board exploring the impact of decisions on future customers

Customer Forum
In 2017 we identified a core of engaged online panel members to form a 'customer forum group' who meet regularly at our offices to discuss issues affecting the Company at the time. This provides us with a fantastic forum within which to consult a range of customers directly and get their perspective during our decision making process.

UKCSI
For the first time, in January 2018, we obtained a score from the UKCSI. The results were excellent; we achieved a score of 77.4 compared to a utility industry average of 74.4 and the all sector average of 78.1, placing us as one of the best performing water companies.

CORPORATE RESPONSIBILITY REPORT (continued)

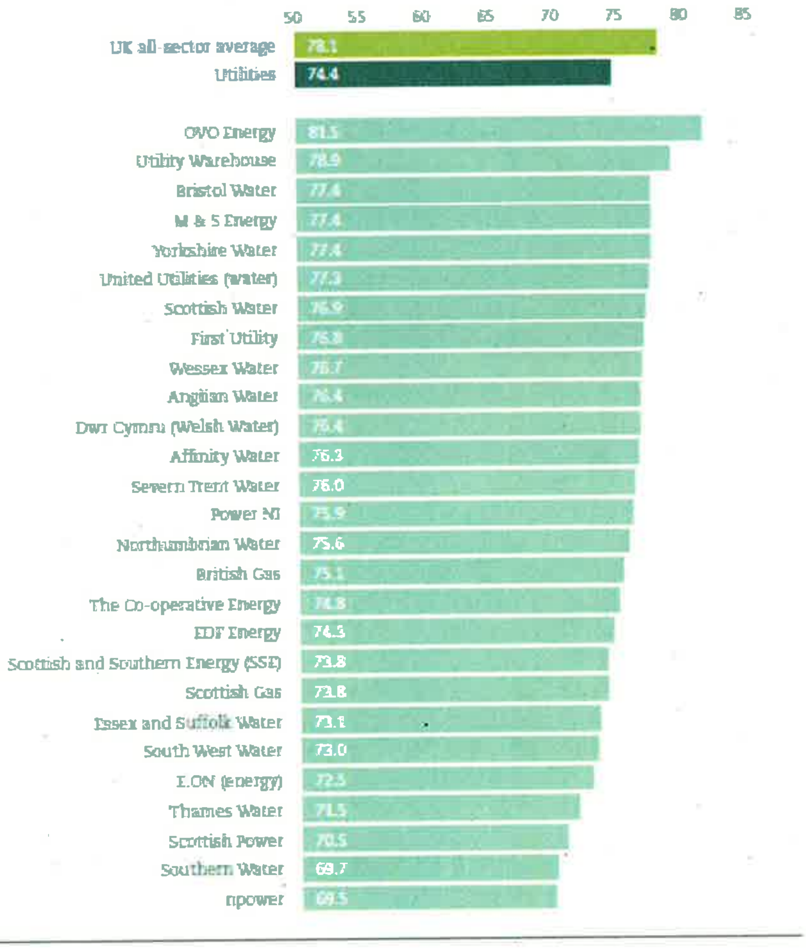


Figure 15: Institute of Customer Service (ICS) survey

We use every opportunity to engage and get feedback

We use our summer road shows to engage the widest possible base of customers in local communities and provide free water with our Water Bar. This year we have used our online game to obtain customers willingness to pay for different services.

We have developed real-time feedback capabilities to capture new channels. As well as maintaining the traditional feedback cards posted through customers doors after a job is completed, we now ask customers for feedback following email enquiries. In 2017 we have received 947 feedback cards and 297 via online feedback. In addition, around 20 customers were given an instant call back through completing the short survey.

We reached over 600,000 people on social media during our boil notice at Clevedon. We used the opportunity to reach out to customers while they were interested and issued a quick survey via social media. Over 100 people completed the survey and we got some insightful responses on how our response could be improved. Overall satisfaction was 70%. Read more about the Clevedon incident on page 32.

CORPORATE RESPONSIBILITY REPORT (continued)

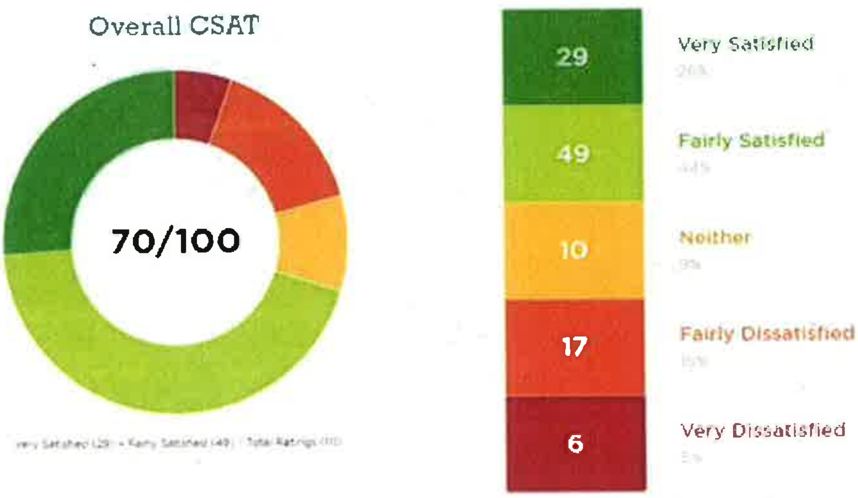


Figure 16: Customer Satisfaction following the incident at Clevedon

We use customer insight to make decisions
The customer feedback we have gained through all of our engagement activity has resulted in us making real operational changes to benefit customers:

- Live chat - Our online panel said that they wanted us to introduce Live Chat so we have.
- When things have gone wrong for customers, we have changed our processes of agreeing goodwill payments to provide a quicker response to problems.
- Customer Insight from our incidents has told us that we need to do more to promote the additional services we provide. This is something we have planned in for the next financial year.
- There is a strong willingness to pay for us to do more to increase water efficiency.
- Through home interviews customers have told us that they find the bill confusing so we have redesigned the bill focusing on simplifying the language and style.

How we communicate with our customers
The infrastructure required to deliver water is large and complex, we have nearly 7,000km of water mains in our supply area. Together with our treatment works, pumping stations and reservoirs, that leads to a lot of maintenance, and this can impact customers through supply issues and roadworks.

In the case of planned work or unplanned emergencies, we keep customers informed and updated by letter, door drops, text messaging, our website and via Twitter. We also recognise that others can be affected indirectly through road congestion and are constantly looking for ways to maximise our reach through radio, social media and physical signage.

For day to day issues our Bristol-based Operational Call Centre deals with incoming calls and emails; there were 57,403 calls received in 2017/18 by our staff.

We now have a wide range of effective outbound communication channels including:

- Website: this received 1,307,306 page views
- Text messaging to mobiles and landlines to warn of operational issues: we sent 15,736 in 2017/18

CORPORATE RESPONSIBILITY REPORT (continued)

- Letters: 32,104 sent to customers about the Southern Resilience Scheme, notifying of works and updates
- Twitter – our followers have risen by 1,500 in a year to over 3,400
- WaterTalk – our annual customer magazine is delivered to more than 510,000 homes in our supply area providing a valuable opportunity to communicate with the majority of our customers
- 854 Requests sent for real time feedback:

How we support our 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 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. We work closely with Wessex Water, our joint venture billing company, Pelican Business Services as well as local and national debt advice agencies to support vulnerable customers and develop policies and tariffs that are responsive to societal needs.

The number of customers receiving assistance through these measures has increased by 3,701 since last year, to a total of 13,707. We have donated £100,000 to debt advice agencies across our supply area to help them provide free advice to our customers, and attended numerous public events to support these agencies in the community.

Environment

Water efficiency

Providing an outstanding water service in a sustainable way means we must engage with our customers and other stakeholders and focus on our environmental vision to make efficient use of resources, and encourage our customers to do the same.

Saving water is good for both our customers and the environment as it reduces customers' water and energy bills and also reduces our energy consumption and our carbon footprint. We encourage customers to use the 'Save Water Save Money' service, which is promoted and accessed through our website. This provides guidance on water use and potential savings that can be made by fitting a range of water saving devices and other equipment, most of which can be ordered for free. In 2017/18 we sent out a total of 14,403 water saving devices to customers.

Biodiversity

One of our key aims is to be environmentally sustainable and one way to measure how well we are achieving this is to demonstrate a quantifiable improvement in biodiversity. Our innovative approach called the Biodiversity Index (BI) has been developed to manage and monitor our effect on the natural environment. The BI also enables us to contribute to the resilience of the environment by providing enhancements and improvements to biodiversity across the region.

The Southern Resilience Scheme (SRS) (see page 15) has allowed us to showcase this approach, with biodiversity enhancements carried out wherever a practicable opportunity is identified in order to leave a site in a better environmental condition than when we started.

By identifying features that may be lost during the works, we are able to quantify the amount of environmental enhancement we should provide to offset these effects. This pioneering initiative aims to provide the water industry with a tool for assessing the impacts of all types of development from small scale site improvements to large infrastructure projects. Understanding these impacts will allow for better, more resilient environmental mitigation, compensation and enhancement to be provided.

CORPORATE RESPONSIBILITY REPORT (continued)

Great-crested newts
In the Mendips and across the North Somerset Levels, we have been trapping great-crested newts in order to protect them from our construction activities. In total 42 great-crested newts, along with numerous smooth newts, common frogs and toads were moved away from site activities. This location provides significant habitats for newts and so it is essential that we protect as much of their environment as possible during our work. Part of the mitigation and enhancements measures taking place as part of the scheme has allowed for ponds to be enhanced along the scheme. Three ponds, two full of invasive species and one over grown have been picked for improvement through careful clearance work. The pond at Sladers Leigh Nature Reserve was cleared in 2017 and the two remaining ponds completed in early 2018.

Dormice
Our environment team has identified 24 dormice hedges along the chosen route for the SRS. At these locations we have had to remove sections of hedge to allow us to install the pipe, but not before searching the hedges for any protected inhabitants and placing temporary corridors to allow them to move along the field boundary when they emerge from hibernation. Our engineers and environment team will replace the sections of removed hedgerow with shrub and tree species that will offer an enhanced food and hibernation habitat in the long term.

Cave spiders
In Winscombe engineers have discovered cave spiders living in the Shute Shelve Tunnel. This elusive arachnid is rarely seen thanks to its love of living in total darkness. We installed temporary lighting that is sensitive to the tunnel's insects and other creatures but also allows our engineers to get on with the job at hand. We've also boarded up some of their favourite alcoves making sure we provided plenty of dark space and ventilation so they can stay safe during our time in their habitat.

Bats
Work in the tunnel was also suspended after we discovered bats feeding and roosting there. Our works have been carried out taking due regard and care for the bats and their habitat under a licence from Natural England. We installed bat boxes outside the tunnel entrance to give the bats a home during our works and since completion of the works bats have returned to the tunnel.

Bee orchids
Our engineers successfully trans-located beautiful bee orchids from their temporary home of subsoil in our compounds back into the fields they came from. They were returned to their verge once the construction work was completed and we will continue to monitor all of these habitats until we are satisfied that they are re-established. Some individual plants removed from the Axbridge roundabout are still being stored off site and in a safe location, once testing of the pipe has been completed in this area these plants will also be reinstated but in the meantime they have been used as a training aid for teams working on the project, developing new skills in our workforce.

Trees
Working with Bristol City Council One Tree Per Child Programme nearly 1000 trees have been planted at Brinsea Green Farm to offset habitat impacted along the SRS route. The programme worked with Year 5 children from the Bristol Water area through educational workshops and a tree planting day to demonstrate the value of the trees in the water cycle. Native species such as crab apple, hawthorn, blackthorn, bird cherry, field maple and elder were planted to provide a habitat for invertebrates and birds.

Regulatory commitments
Bristol Water has a regulatory commitment under the National Environment Programme (NEP) to deliver eel protection and invasive species schemes. These are directly related to the BI approach as they will deliver improvements in biodiversity to the wider Bristol Water catchments.

CORPORATE RESPONSIBILITY REPORT (continued)

We are continuing the work we started in 2010 on metaldehyde monitoring, with catchment management now a requirement under the NEP. In late 2014 we formed the Mendip Lakes Partnership comprising of Bristol Water, Natural England, Environment Agency, Catchment Sensitive Farming and Avon Wildlife Trust bringing together organisations with an interest in improving environmental management across the Mendip catchments. This partnership is now supporting the farming sector in the Mendip Lakes catchments, which are keen to protect water quality in the rivers and reservoirs, improve soil management and enhance local wildlife.

Community

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

Continuing its success in 2016, the Water Bar returned for another year and re-launched with '18 events for 2018'. April to November 2018 had 18 events penned in to cover both city centre and rural Bristol, and is well on its journey in reaching over 75,000 customers in as many sections of our supply area as possible and giving away roughly 43,500 litres of water. The messaging of refill and reducing plastic waste is pivotal and one that will continue to be pushed within all our community strategies.

2017/18 brought positive new developments for the many different elements that support community wellbeing at the lakeside estate. In spring 2017 we jointly launched a new lakeside restaurant at Chew Valley Lake through a local business partnership. 'The Woodford' has already proved to be a highly popular and valued amenity.

In early 2018 we renewed the leasehold arrangements for Chew Valley Lake Sailing Club. This community volunteer club has over 1,200 members and celebrated 50 years in 2017. The new 25 year lease provides security of tenure, supports grant funding applications and will ensure thousands more members of our community can get afloat and enjoy the sport of sailing. Throughout 2017 we partnered with local volunteer club Cheddar Water sports (formerly Bristol Corinthian Yacht Club) on a trial to increase and broaden the recreational usage of Cheddar Reservoir. The trial increased the amount of recreational activity and extended permitted craft beyond sailing dinghies and windsurfers to include Stand-up Paddleboards, Kayaks and Canoes. This trial was supported by Natural England and has been extended by a further two years which is great news for the Cheddar community and beyond.

Our fisheries continue to diversify and attract a broader interest group. Chew is now as well known for its predator fishing as for its famous trout fly fishing. October 2017 we carefully introduced pike fly fishing on a trial basis at Blagdon Lake. This proved a success and we plan to repeat this going forward. We demonstrated our commitment to support disabled fishing through refurbishment of our special access craft, designed and built by The Wheelyboat Trust. Elsewhere around the lakeside our growing relationship with 'The Conservation Volunteers' (TCV) organisation is delivering community benefit. Co-creation with TCV and our volunteer bird wardens delivered much needed restoration work to board walks and two bird hides. This has helped many more people, including school groups, to get closer to nature. A local 'couch to 5k' jogging club called 'Chew Valley Snails' formed in 2017 and is one example of the many that enjoy the refurbished lakeside trails.

Employees

Learning and development

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

This year, we have invested in new learning and development interventions, as well as focusing on talent and succession planning to support employee engagement, motivation and retention.

CORPORATE RESPONSIBILITY REPORT (continued)

Our recruitment process has been overhauled with a new careers microsite to help us showcase our jobs and workplace to quality applicants, and a new portal to make the recruitment experience easier for applicants and more efficient internally.

Improving communication across the entire business has been a key driver this year and we have really stepped up our internal communication capability utilising innovative technology and traditional methods to increase awareness and engagement around significant projects and internal business improvement programmes.

One of the advantages of being a small organisation is that our senior managers have close proximity to all staff and this year we have seen our Executive Directors and senior managers increasing the time they spend out with our operational employees to listen to and understand their concerns.

Health, Safety and Wellbeing
The rollout of the concept of 'Take Five for safety', a business wide programme to deliver a step change in the safety of our operations started in 2018. This initiative includes a series of quarterly topics to engage, inform and support the change in behaviour of our employees and will be used to drive towards becoming a zero harm business.

We have also further developed our use of leading indicators to help drive improvement and have further refined our hazard reporting systems to better capture and correct hazardous conditions before they develop into accidents, encouraging employees and contractors to report as many hazards as possible.

The hazard reporting system provides feedback to anyone raising a hazard at several stages within the process ensuring the reporter is kept informed. This regular communication has encouraged more of our staff to report hazards and is helping to deliver a safe workplace. We continue to consult with our workforce through our quarterly Health & Safety committee meetings that sees a number of positive actions are being taken to address issues raised. We continue to reinforce our five safety codes, the foundation of our safety culture:

- Lead by Example
- Risk Assess your Task
- Be Fit for Work
- Be Competent
- Communicate

Equality and diversity
Gender pay gap
The UK Government introduced legislation for employers with 250 or more employees, to publish annually, information relating to the gender pay gap in their organisation. The gender pay gap is the difference in the average earnings of men and women. This information is taken from a snapshot of the Company's payroll data in April each year, with April 2017 being the first report date.

- The mean gender pay gap for Bristol Water is 16.0%.
- The median gender pay gap for Bristol Water is 21.6%.
- The mean gender bonus gap for Bristol Water is 14.6%.
- The median gender bonus gap for Bristol Water is 20.1%.
- The proportion of male employees in Bristol Water receiving a bonus is 78.3% and the proportion of female employees receiving a bonus is 65.5%.

CORPORATE RESPONSIBILITY REPORT (continued)

Pay Quartiles by gender:

Band	Males	Females	Description
A	56%	44%	Includes all employees whose standard hourly rate places them at or below the lower quartile
B	61%	39%	Includes all employees whose standard hourly rate places them above the lower quartile but at or below the median
C	78%	22%	Includes all employees whose standard hourly rate places them above the median but at or below the upper quartile
D	83%	17%	Includes all employees whose standard hourly rate places them above the upper quartile

A gender pay gap exists at Bristol Water. Unfortunately it is the case that a gender pay gap exists in most companies throughout the UK and the reasons for the existence of a gender pay gap at Bristol Water are similar to these other companies and particularly similar within the water industry. These reasons include:

- More women work part time (predominately this role type sits within lower pay bands)
- More men occupy senior roles
- More men occupy technical roles
- More men occupy roles that receive shift allowances that receive higher pay

Bristol Water is committed to taking steps to reduce the gap. We recognise that our scope to act is limited in some areas however we have already started to take steps to improve our gender diversity.

1. Creating an evidence base: To identify barriers to gender equality and inform priorities for action, we have introduced gender monitoring to understand the proportions of men and women across recruitment, internal promotions, leavers and their reasons, each role and pay grade and the impact of flexible working.

2. Revising the flexible working policy: To encourage greater uptake, our flexible working request policy was revised to make it clear that all employees will be considered for flexible working and that flexible working need not be limited to part-time. This included a simplified process for submitting a flexible working request. The policy is available on the internal intranet.

3. Training on equality and diversity: We have developed new training material for managers and employees on equality and diversity and completion of these courses is mandatory.

You can read our full statement on the gender pay gap here: https://www.bristolwater.co.uk/wp/wp-content/uploads/2018/03/Comms-Gender-Pay-Gap.pdf.

Diversity
As an inclusive employer, we promote equality and inclusion throughout our people policies, procedures and practices. We are committed to employment policies which follow best practice as set out by ACAS and are based on equal opportunities for all employees.

CORPORATE RESPONSIBILITY REPORT (continued)

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.

We continue with our efforts to ensure our managers have the tools to succeed, and are delivering both unconscious bias training and interview skills training across the company. This will help encourage diversity. We have also reviewed and updated our policies relating to flexible working practises, support for parents and carers and volunteering to help promote an inclusive and supportive culture.

Suppliers

Working in partnership

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 partners 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 continually evolve how we provide services to each customer group to reflect the nature of each business line and specific market requirements. For example this year, we implemented a new Wholesale Services function to deliver the new non-household retail market and manage the business to business relationship through dedicated account management.

Within Development Services our management structure continues to have two separate customer facing functions, one retail facing and the other wholesale facing to ensure self-lay providers 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.

Modern Slavery Act

Bristol Water plc. strongly opposes slavery and human trafficking, and would never knowingly conduct business with suppliers or contractors engaged in such practices.

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

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

CORPORATE RESPONSIBILITY REPORT (continued)

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

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

In summary

We pay close attention to the impact we have on society and the environment within which we operate. For us, corporate responsibility is not an academic exercise, we understand we exist solely to provide fresh clean drinking water to our customers and we genuinely put customers at the heart of our business and the decisions we take.

We care passionately about performing this duty while having a positive impact on both the physical environment, improving biodiversity and protecting key species, and the social environment working in partnership to 'do things right'.

Mel Karam
Chief Executive Officer
13 July 2018

CORPORATE GOVERNANCE REPORT

Chairman's introduction
- Keith Ludeman,

Dear Shareholder

I am pleased to introduce our Governance report for 2017 on behalf of the Board in accordance with the Bristol Water Code, as defined on page 79. The pages which follow provide details on the activities and governance processes of the Board and its Committees.

During the year, the Board has spent a significant proportion of its time on operational delivery, strategic development and PR19. The scope of the Board's activities, discussions and actions are detailed on page 81.

My role, along with the Board, is to ensure that Bristol Water operates to the highest standards with a robust governance framework in order to deliver its objectives and meet stakeholder obligations. In the year, a board effectiveness review was carried out by the consultancy Indepen. The last Board review was in 2015 and since then the Board has seen considerable change with new shareholders and directors and an ever changing regulatory environment. The objective of the review was to explore the understanding of the role of the Board; the legislative and regulatory requirements; the behaviours that characterise an effective Board; and how the Board might improve its performance and impact. Further details of the review are set out on page 82.

The Board sets the long term strategy, which it monitors by both challenging and supporting the executive directors in its implementation. During the year, the PR19 subcommittee frequently met to review the progress of the PR19 business plan, also various PR19 'deep dive' days were held to discuss our strategy going forward and areas that would create value to the Company. Topics included asset, regulatory and growth strategies, details of which are included within the Strategic Report on page 6 to 57. There is also a PR19 sub committee report on page 94.

As Chairman, I continue to focus on maintaining a Board which is diverse, having a broad range of skills, backgrounds and perspectives. We have seen a number of changes to the Board during the year. Rob Davis retired in November 2017, having served for 9 years as an Independent Non-Executive Director. Also in November, we announced that Mick Axtell, our Chief Financial Officer, would be leaving after five years, to take up a role with Bristol University and we have agreed that he will leave the Company in July 2018. After 7 years as a Non-Executive, Michael Smerdon stepped down from the Board in February 2018 to focus on his role with iCON Infrastructure in North America. In June 2018, Tony Hemus and Tracey Wood, both Independent Non-Executive Directors, resigned from the Board. They all made a valuable contribution to Bristol Water and I wish them all well for the future.

Finally, I was delighted to welcome Paul Francis to the Board in June 2018, as an Independent Non-Executive Director and Chair of the Audit and Risk Committee.

Keith Ludeman
Chairman
13 July 2018

BOARD OF DIRECTORS

Keith Ludeman

Non-Executive Chairman, Chair of Nomination Committee

Mr Ludeman was appointed to the Board in July 2012. He is the Non-Executive Chairman of the London Transport Museum, and a Non-Executive Director of Interserve PLC and Eversholt Rail Group. He is also an advisor to Lloyds Development Capital. Formerly he was Chief Executive Officer of Go-Ahead Group plc and has forty years' experience in the transport industry.

Mel Karam

Chief Executive Officer

Mr Karam joined the Company in April 2017 as Chief Executive Officer. Prior to joining the Company, he was Partner and Global Head of Asset Management at KPMG International leading their work across 25 countries. Mr Karam has over 25 years of experience in operations asset management and capital delivery in the power and utility sector with senior positions in British Gas, National Grid, Thames and Southern Water. In September 2017, he was appointed as a Non- Executive Director of MOSL, representing Licenced Water Undertaker members. On 30 April 2018, Mr Karam was appointed a non-executive director of Bristol Wessex Billing Services Limited, who act as a billing agent for Bristol Water.

Mick Axtell

Chief Financial Officer

Mr Axtell was appointed to the Board on 30 January 2014. He joined the Company in September 2013 as Deputy Finance Director and was appointed Finance Director in January 2014. Mr Axtell resigned on 6 October 2017 and left the company on 13 July 2018. On 24 November 2015, Mr Axtell was appointed Chief Financial Officer. On the resignation of Luis Garcia on 15 December 2016, Mr Axtell acted as interim Chief Executive Officer until 31 March 2017. Prior to joining the Company he held a number of senior finance roles at RWE, one of Europe's leading electricity and gas companies.

Tim Tutton

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

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

Paul Francis

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

Mr Francis joined the Board on 25 June 2018 as an independent non-executive director. He is a Chartered Accountant with 30 years' experience in the rail and transport sector. Until his retirement in 2017, he was CEO of Porterbrook Leasing.

Tony Hemus[1]

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

Mr Hemus joined the Board on 1 April 2016 as an independent non-executive director. He was an audit partner at PricewaterhouseCoopers for 23 years and, for the final 4 years of his career, was one of the two National Risk and Quality Partners for the Audit and Assurance section of the firm. He retired from PricewaterhouseCoopers on 30 June 2013.

[1] Tony Hemus resigned from the Board on 19 June 2018

BOARD OF DIRECTORS (continued)

Tracey Wood[2]

Independent Non-Executive, Chair of Remuneration Committee, Member of the ARAC and Nomination Committee

Ms Wood joined the Board on 1 January 2017 as an independent non-executive director. She is currently the Legal Director and Company Secretary at Costain Group plc and also has responsibility for human resources across the Group. She is a Director of The Costain Charitable Foundation. Ms Wood has a background in construction and commercial law and was formerly a partner at Hammonds.

Robert Davis[3]

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

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

Hajime Ichishi

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

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

Paul Malan

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

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

Michael Smerdon[4]

Non-Executive, Member of ARAC

Mr Smerdon is Chief Executive Officer of iCON Infrastructure Canada Inc., a subsidiary of iCON Infrastructure LLP. Prior to joining iCON Infrastructure he was Chief Financial Officer of Capstone Infrastructure Corporation from 2009-2017. Mr Smerdon joined the Board on 5 October 2011.

Indradoot Dhar

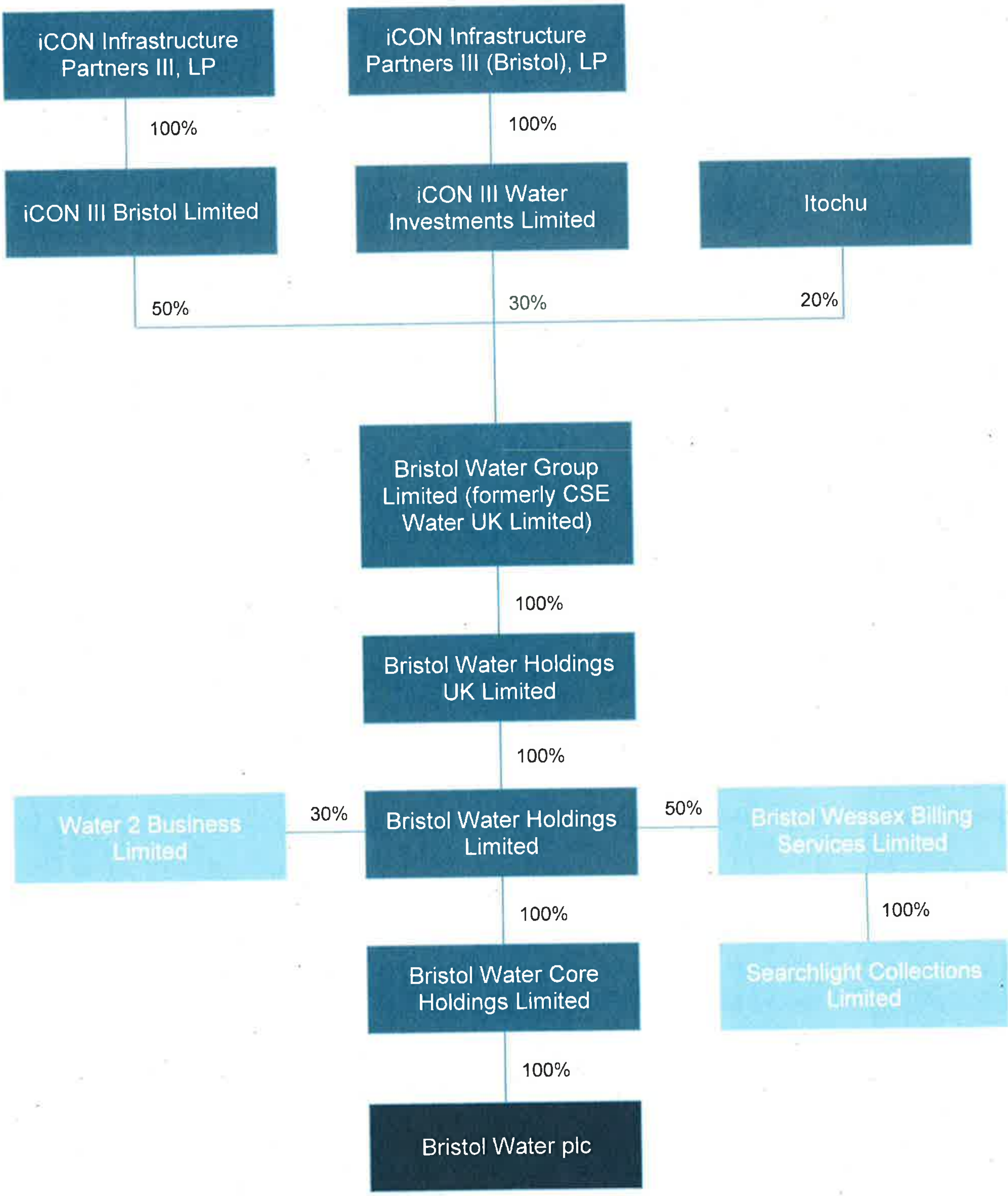
Non-Executive, Member of ARAC

Mr Dhar is a member of the iCON Infrastructure LLP team where he focuses on asset and risk management. Prior to joining iCON Infrastructure, he worked at Cambridge Associates a global investment consultancy firm, and Deutsche Bank. He was appointed to the Board on 8 May 2018.

---

[2] Tracey Wood resigned from the Board on 19 June 2018
[3] Rob Davis retired from the Board on 23 November 2017
[4] Michael Smerdon resigned from the Board on 28 February 2018

OWNERSHIP AND CORPORATE STRUCTURE



OWNERSHIP AND CORPORATE STRUCTURE (continued)

Company	Company Details	Directors
iCON Infrastructure Partners III, LP	English Limited Partnership, domiciled in Guernsey	No Designated Members Managing General Partner – iCON Infrastructure Management III Limited
iCON III Bristol Limited	Incorporated in Guernsey Tax resident in the UK	Paul Malan Richard Stevens
Bristol Water Group Limited (formerly CSE Water UK Limited) iCON III Bristol – 50% iCON III Water – 30% Itochu – 20%	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Michael Smerdon (resigned 28 February 2018) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017) Indradoot Dhar (appointed 1 March 2018)
Bristol Water Holdings UK Limited Wholly owned by Bristol Water Group (formerly CSE Water UK Limited)	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Michael Smerdon (resigned 28 February 2018) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017) Indradoot Dhar (appointed 1 March 2018)
Bristol Water Holdings Limited Wholly owned by Bristol Water Holdings UK Limited	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Michael Smerdon (resigned 28 February 2018) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017) Indradoot Dhar (appointed 1 March 2018)
Bristol Water Core Holdings Limited Wholly owned by Bristol Water Holdings Limited	Incorporated in England & Wales Holding company	Hajime Ichishi Paul Malan Michael Smerdon (resigned 28 February 2018) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017) Indradoot Dhar (appointed 1 March 2018)
Bristol Water plc Wholly owned by Bristol Water Core Holdings Limited	Incorporated in England & Wales Holds Water Undertaker Licence under Water Industry Act 1991	Details of directors on pages 73 to 74
Bristol Wessex Billing Services Limited Bristol Water Holdings Limited – 50%	Incorporated in England & Wales Joint Venture Billing Company	Colin Skellet Andrew Pymer Mick Axtell (resigned 30 April 2018) Ben Newby Mel Karam (appointed 30 April 2018)
Searchlight Collections Limited Wholly owned by Bristol Wessex Billing Services Limited	Incorporated in England & Wales Debt Collection Company	Alex Chapman Lynne Stephens (resigned 30 October 2017) Amy Badman (appointed 30 October 2017)
Water 2 Business Limited Bristol Water Holdings Limited – 30%	Incorporated in England & Wales Non Household Retailer Holds Water Supply Licence	Christopher Chambers (resigned 15 September 2017) David Elliott (resigned 1 April 2017) Sarah Johnson Enis Moran (resigned 1 April 2017) Alan Morgan (appointed 1 April 2017) Mark Watts (appointed 15 September 2017) Mohammed Saddiq (resigned 1 April 2017)

OWNERSHIP AND CORPORATE STRUCTURE (continued)

The Board of Bristol Water plc (Bristol Water) seek to uphold the highest standards of transparency and openness in performing its functions and dealing with all of our stakeholders. A key aspect of this relates to the ownership of Bristol Water plc.

At 31 March 2018, 80% of Bristol Water was ultimately owned by two investment funds (the "iCON Funds") which are affiliated with iCON Infrastructure LLP ("iCON"), iCON Infrastructure Partners III, L.P. ("iCON III") own 50% and iCON Infrastructure Partners III (Bristol), L.P. ("iCON Bristol") own 30%, along with 20% ultimately owned by Itochu Corporation ("Itochu").

The iCON Funds are English limited partnerships, domiciled in Guernsey. The iCON Funds employ typical partnership structures used for institutional investment, pursuant to which partners themselves (rather than the partnership) are taxable on their share of any profits or gains of the partnership as and when these arise. The ultimate investors in the iCON Funds are pension funds, asset managers and insurance companies from countries around the world including the UK, Germany, France, Canada, the United States and Japan. Further information concerning iCON, which is an experienced investor in the UK water sector, can be obtained at www.iconinfrastructure.com.

Itochu has owned its indirect 20% shareholding in Bristol Water since May 2012. Itochu is a diversified group based in Japan which is listed on the Tokyo stock exchange. Further information concerning Itochu can be obtained at www.itochu.co.jp.

The ultimate holding company of Bristol Water is Bristol Water Group Limited (formerly known as CSE Water UK Limited) ("Bristol Water Group"), which is a UK incorporated and UK tax resident company. The iCON Funds and Itochu are indirect investors in Bristol Water Group. The iCON Funds hold their interests in Bristol Water Group through holding companies which were incorporated in Guernsey but are tax resident in the UK, namely iCON III Bristol Limited in the case of iCON III and iCON III Water Investments Limited in the case of iCON Bristol. Itochu owns its shareholding through a UK incorporated and UK tax resident holding company, which is a 100% owned subsidiary.

Bristol Water Group owns 100% of Bristol Water indirectly through three further wholly owned, UK incorporated and UK tax resident holding companies, namely Bristol Water Holdings UK Limited (Bristol Water Holdings UK), Bristol Water Holdings Limited (Bristol Water Holdings) and Bristol Water Core Holdings Limited (Bristol Water Core Holdings). Bristol Water Holdings, the intermediate holding company, also owns a 30% shareholding in Water 2 Business Limited and a 50% shareholding in Bristol Wessex Billing Services Limited, alongside its 100% indirect shareholding in Bristol Water.

Financing and dividend policy of the group with its ultimate shareholders:
During the year, Bristol Water paid dividends of £7.3m (2016/17: £9.2m) to its immediate holding company Bristol Water Core Holdings. Of this dividend, £3.3m was returned to Bristol Water in respect of interest owing on intragroup debt facilities (see below under "Group financing arrangements") and the £4.0m balance was invested in working capital of the group, with the vast majority applied to financing the working capital of Water 2 Business Limited. No dividends were paid during the year (2016/17: £nil) by Bristol Water Group to the holding companies of Itochu or the iCON Funds.

There are no long term shareholder loans provided by the ultimate owners of Bristol Water, the iCON Funds and Itochu, to Bristol Water Group or any of its subsidiaries (including Bristol Water).

In December 2016, the iCON Funds and Itochu contributed £9.0m additional funds to the group. These funds are on a short term, non-interest bearing basis to Bristol Water Group by the holdings companies of the iCON Funds and Itochu, pro-rata to their ownership interests in Bristol Water Group. They were on-lent by Bristol Water Group to Bristol Water Holdings UK to fund payments to Agbar on 15 December 2016 in connection with the ending of Agbar's O&M arrangement with Bristol Water Holdings UK. No payment was made in 2017/18 in respect of this payable thus £9.0m remained outstanding at 31 March 2018.

OWNERSHIP AND CORPORATE STRUCTURE (continued)

As at 31 March 2018, Bristol Water's net debt, including preference shares, was £323.4m corresponding to a ratio of 64.4% to its regulated asset base, which is in close proximity to the 62.5% notional capital structure that Ofwat assumed for water companies in AMP6. The net debt of the consolidated group comprising Bristol Water Group and its subsidiaries is also consistent with Ofwat's assumption, after adjusting for the £9.0m of short term receivables and accounting for mark-to-market adjustments for debt arising at the time of Bristol Water Group's acquisition of its interests in the group.

Group financing arrangements

There are two upstream loans from Bristol Water to its immediate 100% shareholder Bristol Water Holdings: a £47.0m loan earning interest of 6.042% and a £21.5m loan earning interest of 5.550% (together the "Upstream Loans"). Bristol Water received interest payments of £3.3m net of tax in respect of the Upstream Loans from Bristol Water Holdings UK in the year ended 31 March 2018 (2016/17: £3.2m). These interest payments are currently funded by dividends received from Bristol Water. The Upstream Loans have been outstanding since 2003 and 2005, respectively, and are entirely internal to the consolidated group headed by Bristol Water Group.

Governance

iCON has confirmed that the iCON Funds are aware and supportive of Ofwat's "Board leadership, Transparency and Governance - Holding Company Principles" published in April 2014 which set out Ofwat's expectations for holding companies of regulated water companies to show their adherence to the highest standards of corporate governance. This section of the annual report addresses these Holding Company Principles and a note has been placed on the Bristol Water website noting the compliance with these principles and cross referring to this report where necessary.

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

iCON has confirmed, on behalf of iCON III in its capacity as managing general partner of iCON III, as follows:

- it has been briefed on Bristol Water's duties under the Water Industry Act 1991 and the licence;
- it is aware of and will comply with the terms of the Condition P Undertaking, including:
    - its obligation to provide all such information as may be necessary to enable Bristol Water to comply with the requirements of the conditions of its appointment as a water undertaker; and
    - it will refrain from any action which would or may cause Bristol Water to breach any of its obligations under the Water Industry Act 1991 or the conditions of its appointment as a water undertaker;
- it will provide Bristol Water with the information it needs to assure itself that Bristol Water is not at risk from the activities of the wider Bristol Water group;
- it will disclose to Bristol Water details of any issue identified by its directors in respect of the Bristol Water group that might materially impact upon Bristol Water so that Bristol Water can take all appropriate steps;
- it will facilitate the ability of Bristol Water to meet the requirements of its own code of Corporate Governance; and
- it will support Bristol Water's ability to make strategic and sustainable decisions in the long term interests of the Company.

CORPORATE GOVERNANCE REPORT

Principles of Corporate Governance

Bristol Water has developed its own corporate governance code ("the BW Code") which combines the UK 2016 Corporate Governance Code ("the Code") and the "Ofwat principles." The "Ofwat principles" are set out in the Ofwat document "Board leadership, transparency and governance" published in January 2014 and enforce the UK Corporate Governance Code.

Our code of corporate governance ("the BW Code"), is available on our website; and our viability statement can be found on page 38 to 41.

Bristol Water is a private company with listed debt but no listed equity, therefore is not under an obligation to report compliance with the 2016 Corporate Governance Code, however, the conditions of our Water Licence require us to report as if we have listed equity. The Board is pleased to confirm that Bristol Water complied with the provisions set out in the BW Code for the period under review.

Role of the Board

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.

The Board is responsible to all of the Company's stakeholders for the approval and delivery of the strategic objectives of Bristol Water, by ensuring that all financial, technical and human resources are in place and also lead the Company within an effective framework of monitoring and managing risk.

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 Board delegates certain roles and responsibilities to the Committees, detailed below, in the Committee reports. These Committees assist the Board by focussing on their specific areas and making recommendations to the Board in line with their Terms of Reference.

The Board has a schedule of matters reserved specifically for the Board. This is available on the Bristol Water website. The Board delegates day-to-day and business management control to the executive directors in accordance with an approved scheme of delegation.

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 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:

- Audit and Risk Assurance Committee "ARAC" which reviews the integrity of financial information, financial controls and risk management;

CORPORATE GOVERNANCE REPORT (continued)

- Remuneration Committee which reviews Company remuneration policy and Executive remuneration packages; and
- Nomination Committee which oversees the Board composition and succession planning

Ofwat Board Leadership Transparency and Governance Principles 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 Company's policy is to meet these Principals and following the resignations of T Hemus and T Wood, the Board is acting quickly to appoint new independent non-executive directors.

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

Board meetings and attendance

The following table sets out the attendance of directors at scheduled board meetings during the financial year:

Member of the Board	Meetings attended	Max possible	Percentage attendance during appointment period
K Ludeman, Chairman	6	7	86%
M Karam, Chief Executive Officer	7	7	100%
M Axtell, Chief Financial Officer (resigned 13 July 2018)	7	7	100%
R Davis, Non-Executive (retired 23 November 2017)	4	4	100%
T Tutton, Non-Executive	7	7	100%
T Hemus, Non-Executive (resigned 19 June 2018)	7	7	100%
T Wood, Non-Executive (resigned 19 June 2018)	7	7	100%
M Smerdon, Non-Executive (resigned 28 February 2018)	6	6	100%
H Ichishi, Non-Executive	7	7	100%
P Malan, Non-Executive	7	7	100%

I Dhar and P Francis were appointed to the board on 8 May 2018 and 25 June 2018 respectively.

Board Composition

At 24 May 2018 the Board of Bristol Water plc (the "Board") comprised the Chairman (a non-executive director), two executive directors and six other non-executive directors. Three of the non-executive directors are, in the opinion of the Board, independent. None of the non-executive directors have served for more than nine years on the Board.

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.

Independence of NEDs

The Board considers each of its Independent Non-Executive Directors to be independent in character and judgement and there is no relationship or circumstance that is likely to affect (or could appear to affect) the judgement of such Non-Executive Directors.

CORPORATE GOVERNANCE REPORT (continued)

The Chairman, was considered independent at the time of his original appointment in July 2012. However, in accordance with the Code, the on-going test of independence is not applicable in relation to the Chairman.

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

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

The Board considers the Chairman to be the principal point of reference to whom concerns of whatever nature may be conveyed. Mr Tutton is the senior independent director on 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 Tutton.

Mr Karam was appointed as CEO from 1 April 2017; details of his background and experience are mentioned on page 73.

Board activities

The below details some of the matters considered during the year by the Board:

Topic	Discussion
Customers	SIM performance Discussion with the Chair of the Challenge Panel Customer strategy
People	Health & safety of employees Considered the results of the employee engagement survey Senior management team selection and development
Operating Performance	Continual review of performance to AMP6 performance commitments and ODIs Review of general operating performance Responses to incidents Sub-contractor performance Leakage performance Meter targets
PR19	Review of Business Plan Strategy for the period WRMP Long term strategy document Draft business for consultation Annual and Interim Performance Report
Finance	Reviewed and approve the interim and full year Financial Statements Review of performance against budget and forecast Funding requirements Review of financial viability
Governance & Risk	Review and approve the Ofwat Commitments Monitoring Report Review of measures associated with prescribed status Review principal risks Review of governance framework Board effectiveness review Reappointment of external auditor Effectiveness of internal controls and risk management processes General Data Protection Regulations "GDPR"

CORPORATE GOVERNANCE REPORT (continued)

Accountability

The Board is responsible for presenting a fair, balanced and understandable assessment of Bristol Water's position and future outlook in the Financial Statements. The preparation of the Financial Statements and Annual Report is supported by a number of functions across the Company and numerous reviews are undertaken by the Audit and Risk Assurance Committee and the Board.

Details of how the company generates and preserves value over the long term is set out in the Strategic Report on pages 12 to 14.

Evaluation of Board Effectiveness

The Board has established a formal process for the evaluation of the effectiveness of the Board and its Committees with an external review conducted every 3 years. During the year, the Chairman engaged with Ann Bishop of Indepen Limited. Neither Ann Bishop or Indepen have any other connection with the company aside from the provision of Board evaluations save for the provision of management consultancy advice during the year for Board Strategy decisions.

1. Questionnaire	2. Face to Face meetings	3. Evaluation and Reporting	4. Board discussion
• Comprehensive questionnaire covering: • Strategy & performance • Governance & Leadership • Board structure & composition • Role of board, dynamics and engagement	• Board members and the People, Health & Safety Director participated in one-to-one meetings	• Observations of Board at November Board meeting • Review of board papers • Drafted report on findings from the questionnaire and meetings	• Report presented to the Board in the February 2018 Board meeting

The report concluded that:

- Bristol Water is compliant with Ofwat's governance guidelines,
- the Chairman creates a culture in which all the Board members can fully participate;
- the Board has experienced directors with good knowledge, experience and skills; and
- the Independent Non Executives provide effective challenge to the executive and shareholder directors.

Evaluation recommendations:

- The appointment of an experienced Company Secretary to support the Chairman;
- improvement to the support, development and information received by the Board members;
- improvement to the information received by the board to allow it to focus on strategic and performance issues and risks; and
- steps to develop the dynamic of the Board; by developing and strengthening relationships within the Board, given new members.

The evaluation concluded that the Board and Committees are effective and that the Directors demonstrate commitment and time to their role.

The Non-Executives met without the Executive Directors present on 22 February 2018.

The Senior Independent Director and the Non-Executive Directors met without the Chairman present on 24 May 2018 to appraise the Chairman's performance.

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)

Information and Support

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.

Induction and Training of Directors

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

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

Risk Management and 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 2014 by the FRC, Guidance on Risk Management and Related Financial and Business Reporting and by regular review and reporting in accordance with that guidance.

The Board has overall responsibility for the system of risk management and 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.

CORPORATE GOVERNANCE REPORT (continued)

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;
- reviews and where appropriate, approves non-audit services undertaken by the statutory auditor;
- 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 22 March 2018 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.

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. Non-executive directorships are stated in the Directors' biographies.

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.

In accordance with the Code, all non-executive directors who have been directors for nine years or more will offer themselves for re-election at each annual general meeting.

CORPORATE GOVERNANCE REPORT (continued)

Relations with Shareholders

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

Directors' Conflicts of Interest and External Appointments

All directors have a statutory duty to avoid situations, where they have, directly or indirectly, a conflict of interest. Procedures are in place to disclose any such conflicts to the Board as they arise. During the year, no such conflicts arose.

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.

The Nomination Committee Report, ARAC Report and Remuneration Committee Report form part of this Governance Section and are contained on pages 86 to 93 and pages 95 to 108.

The Board Diversity Policy in contained within the Nomination Committee Report on pages 86 to 87. Corporate Responsibility report is included within the Strategy section on pages 58 to 71.

NOMINATION COMMITTEE REPORT
- Keith Ludeman, Chairman of the Nomination Committee

Introduction

As Chairman of the Nomination Committee, I am pleased to introduce the Nomination Committee report detailing its role and the work undertaken by the Committee during the year.

The Committee plays a key role in supporting the Board on its responsibility for succession planning and diversity.

Attendance during the financial year

Member of Committee	Meetings attended	Max possible
K Ludeman, Chairman	1	1
R Davis, Non-Executive (retired 23 November 2017)	0	0
T Tutton, Non-Executive	1	1
T Hemus, Non-Executive (resigned 19 June 2018)	1	1
T Wood, Non-Executive (resigned 19 June 2018)	1	1
H Ichishi, Non-Executive	1	1
P Malan, Non-Executive	1	1

Only members of the Committee have the right to attend Committee meetings; other individuals such as the CEO, Senior Management, HR Director and external advisors may attend, on an invitation only basis, as deemed appropriate.

The committee is chaired by Keith Ludeman, and comprises the following independent non-executive directors; Rob Davis (retired 23 November 2017), Tim Tutton, Tony Hemus (resigned 19 June 2018), Tracey Wood (resigned 19 June 2018) and Paul Francis (appointed 25 June 2018) and two shareholder non-executive directors, Paul Malan and Hajime Ichishi.

Nomination Committees Responsibilities

Under the chairmanship of Mr Ludeman this committee has the task of:

- recommending new appointments to the Board and reviewing re-appointments when they become due;
- evaluating the balance of skills, knowledge and experience on the Board and, in the light of this, prepare a description of the role and capabilities required for a particular appointment;
- reviewing the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes;
- undertaking annual performance evaluations of the Board Members.

Mr Ludeman does not chair this committee if it discusses the performance of the chairman or the appointment of a new chairman of the Board.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders on the Bristol Water website or by writing to the Company Secretary.

During the year following the resignation of Mick Axtell as Chief Financial Officer, the Company undertook an extensive executive search process for a new Chief Financial Officer using Korn Ferry. The preferred candidate was interviewed by members of the Committee and on 9 April 2018, Laura Flowerdew accepted the role of Chief Financial Officer starting on 1 October 2018. Laura will be appointed to the Board of the Company in October.

In addition, in May 2018, Indradoot Dhar was appointed as a non-executive director of the Company. Indradoot is an employee of iCON Infrastructure and Paul Francis was appointed as an independent non-executive director in June 2018. Their biographies are set out on pages 73-74.

NOMINATION COMMITTEE REPORT (continued)

Diversity and succession planning

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

In accordance with our BW 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, age and ethnicity;
- 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.

As part of the board effectiveness review, detailed above, consideration was given to the number of external positions held by the non-executive directors to ensure that there was no over-boarding and that the directors have sufficient time to commit to Bristol Water.

The Board is committed to the principle of equal opportunities and equal treatment for all employees set out in the Company's Equal Opportunities Policy. This year, we have established new learning and development interventions, as well as focusing on talent and succession planning, to support employee engagement, motivation and retention. 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, creating an inclusive and diverse workplace.

During the year, there was a single female representation at the Board level, until her resignation on 19 June 2018. In October 2018, Laura Flowerdew will be appointed to the Board as CFO. The Board Diversity Policy sets out an aspiration to have at least 33% female board membership by the end of 2020 in accordance with the target set by the Hampton-Alexander review. 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.

AUDIT AND RISK ASSURANCE COMMITTEE "ARAC" REPORT
- Paul Francis, Chairman of the Audit and Risk Assurance Committee

Introduction

As Chairman of the ARAC, I am pleased to introduce our report on the role of the ARAC and the work undertaken during this year. The following pages provide additional details of our activities and discussions and also an overview of the significant issues addressed and steps taken to address these issues.

The Committee continues to play a key part supporting the board in discharging its responsibility on the integrity of the Financial Statements, risk management and internal controls.

Attendance during the financial year

Member of Committee	Meetings attended	Max possible
T Hemus, Chairman (resigned 19 June 2018)	5	5
R Davis, Non-Executive (retired 23 November 2017)	3	3
T Tutton, Non-Executive	5	5
T Wood, Non-Executive (resigned 19 June 2018)	4	5
H Ichishi, Non-Executive	5	5
M Smerdon, Non-Executive (resigned 28 February 2018)	4	4
P Malan, Non-Executive (appointed 22 March 2018, resigned 24 May 2018)	1	1

The Committee was chaired by Tony Hemus until his resignation on 19 June 2018), independent non-executive director, and comprises three other independent non-executive directors Rob Davis (retired 23 November 2017), Tim Tutton and Tracey Wood (resigned 19 June 2018) and two non-executive directors Michael Smerdon (resigned 28 February 2018), Hajime Ichishi and Paul Malan (appointed 22 March 2018, resigned 24 May 2018). On Tony Hemus' resignation, Paul Francis was appointed as Chairman of the ARAC from 25 June 2018. Indradoot Dhar was appointed to the committee on 8 May 2018. This membership complies with the Code. The Company considers that the Chairman of the Committee possesses the necessary recent and relevant financial experience to effectively chair the Committee. In addition, the Company considers that all the members of the Committee possess relevant skills and experience to meaningfully support the activities of the Committee. The biographical details of all the members of the Company are shown on pages 73 to 74.

The Company Secretary is secretary to the Committee.

In addition to the attendance set out above, the Chairman, CEO, CFO, Financial Controller, Internal Auditors and External Auditors normally attend, by invitation, all meetings of the committee. Other members of senior management are invited as appropriate.

The Committee regularly holds private discussions with the internal and external auditors separately without management present. The Chairman holds separate one to one meetings with the CFO and external auditors to fully understand any issues or areas of concerns.

Committee's responsibilities

The ARAC's responsibilities include:

- monitoring internal controls and risk management,
- approving the accounting policies,
- review arrangements for whistleblowing,
- oversight of the Internal Audit and External Audit, and
- reviewing the interim and annual financial statements before submission to the Board.

The Committee is formally constituted with terms of reference. A copy of the terms of reference is available to shareholders on the Bristol Water website or by writing to the Company Secretary.

AUDIT AND RISK ASSURANCE COMMITTEE "ARAC" REPORT (continued)

Below is a summary the Committee's work during the year:

Meeting on 24 May 2017
- Updated by external auditors on the activities of the year-end audit and reviewed their findings;
- Reviewed the draft financial statements and results for the year ended 31 March 2017 and including the draft corporate governance sections, and heard supporting evidence for the risks, viability and going concern statements;
- Reviewed the annual Investor report for to be submitted to lenders;
- Reviewed internal audit reports and actions arising;
- Reviewed new policy for Competition Compliance Framework;
- Heard update on compliance monitoring for NHH retail separation; and
- Session without management present.

Meeting on 6 July 2017
- Reviewed final financial statements and results for the year ended 31 March 2017 including the accounting policies, corporate governance report, long term viability statements and going concern opinion and heard from the external auditors;
- Reviewed Annual Performance Report for 2016/17 and discussed with external assurers;
- Reviewed the Risk and Compliance Statement;
- Reviewed internal audit reports and actions arising;
- Reviewed updated policies on Fraud, Anti-bribery and Corruption; and
- Session without management present.

Meeting on 24 November 2017
- Reviewed the Statement on Strength, Risk and Weakness of Information;
- Reviewed the Mid-year Performance Report;
- Reviewed Risk Report;
- Updated by external auditors and reviewed the proposed audit plan for 2018;
- Updated on the Company's approach to the preparation of financial statements for 2018;
- Reviewed internal audit reports and the actions arising; and
- Session without management present.

Meeting on 22 February 2018
- Reviewed the updated Terms of Reference for the Committee;
- Reviewed the updated Risk Report;
- Reviewed internal audit reports and the actions arising;
- Updated on IFRS15 accounting standard for revenue recognition;
- Updated on the programme for the preparation of the financial statements for the year ending 31 March 2018;
- Reviewed the Internal Audit Progress Report; and
- Session without management present.

Meeting on 22 March 2018
- Reviewed the Company's final Assurance Plan;
- Deep dive into Corporate Risks, particularly those risks to be reported in the financial statements for the year ending 31 March 2018;
- Review of the process in preparing the Viability Statement to ensure that it was in line with Ofwat requirements and Financial Reporting Council guidance;

AUDIT AND RISK ASSURANCE COMMITTEE "ARAC" REPORT (continued)

- Reviewed progress for the preparation of the financial statements for the year ending 31 March 2018;
- Reviewed internal audit reports and the actions arising; and
- Session without management present.

Prescribed assurance status

Ofwat expect companies to be open and transparent with all their stakeholders and to communicate clearly their performance. It uses the company monitoring framework as a tool to encourage companies to deliver high quality assurance of the information they produce. Ofwat's assessment places companies in one of three categories to reflect their view of the quality of each company's approach to assurance. The category defines the level of discretion the company has in determining the assurance process for information it publishes going forward, as shown below:

Category	What this means
Self assurance	The company must meet the minimum assurance requirements, but it has discretion to decide what additional assurance arrangements to put in place.
Targeted	The company must meet the minimum assurance requirements. It must also carry out a risks, strengths and weaknesses exercise; and consult stakeholders and publish draft assurance plans on the areas identified as risks/weaknesses.
Prescribed	The company must meet the minimum assurance requirements and the requirements for targeted companies, and its draft assurance plan must cover all information. Areas of significance or greatest risk to customers require independent external assurance. It must publish its assurance plans for all information ahead of reporting and engage with stakeholders (and Ofwat) before it publishes its final assurance plans

In December 2015 Ofwat re-categorised the Company's assurance status to 'prescribed' as in their view the Company had assurance shortcomings which were identified during the Company's PR14 appeal to the Competition and Markets Authority. Feedback was provided from Ofwat on the Company's assurance activities in the Company Monitoring Framework 2016 assessment. This stated the Company had met Ofwat's expectations across the majority of their assessments, and that its data was in most cases accurate and well-explained, but that there were minor concerns to be addressed to improve its assurance status. However, its status remained "prescribed".

Ofwat's Company Monitoring Framework 2017 assessed some improvements had been made on the previous year's assessment. The Company met Ofwat's expectations in most areas but there were serious concerns in the area of outcomes reporting. Consequently the Company was retained in the prescribed category.

During the year the Company has presented to the Board the measures already taken and those proposed, aimed at exceeding Ofwat's expectations in terms of transparency of information that Ofwat believe affects the trust and confidence of customers and stakeholders in the water sector. Action already taken includes: the decision to calculate leakage outcome incentives without the benefit of technical data changes; the publication of our mid-year performance report; and increased transparency of our annual tariff changes. Our assurance plan details our data assurance approach, including for PR19 governance and assurance.

Specific areas covered by the ARAC provide support to the Board in approving the assurance measures undertaken, such as reviewing the statement of strength, risk and weakness of information, and the review of the mid-year performance report. In addition the ARAC request detail of the assurance undertaken for the Annual Performance Report. Each ARAC member has responsibility for reviewing and commenting on specific sections of the Annual Report, to help ensure transparency and clear messaging from the Company.

AUDIT AND RISK ASSURANCE COMMITTEE "ARAC" REPORT (continued)

Annual Report

The Committee reviewed and evaluated the Company's financial statements and reports from the external auditor on the outcome of its reviews and audits in 2017/2018. At the Board's request it also considered whether the annual report and accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to access the Company's performance, business model and strategy.

Significant accounting matters

A key responsibility of the committee is the integrity of the financial statements. The Committee considered significant accounting matters and judgments in relation to the Company's financial statements and management presented a report setting out the approach to these areas. Details of how each of these were addressed is shown in the table below. At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant accounting matters arising during the year and the areas of particular audit focus, as reported on in the independent auditors report on pages 151 to 156. Section 4 of the notes to the financial statements also details the critical accounting estimates and judgements.

Significant accounting matter	Specific factors considered by the Committee in determining the judgements or estimates were appropriate:
Going Concern and Viability Statement	The Committee reviewed and challenged the evidence and assumptions underpinning the Viability Statement including: • cash flow management and working capital assumptions • sensitivity analysis and mitigating actions • the time frame for the Viability Statement.
Measured income accrual	The method of estimating water consumed by measured customers over the period between their last meter reading date and the year-end date was reviewed, and the resulting income accrual was compared with previous years.
Accounting for expenditure on infrastructure assets	The committee considered the process under which the nature of capital projects is reviewed by Capital Project Managers and Finance to determine whether expenditure is capitalised as an addition to fixed assets or treated as an operational cost in the Income Statement.
Capitalisation of employment costs	The committee reviewed employment costs capitalised to ensure the required criteria for capitalisation was met.
Bad debt provision	The Committee reviewed the key aspects of the calculation and has had detailed discussions with management about the judgement applied to the bad debt provision. This judgement either increases or decreases the provision calculation using historic collection rates, depending upon recent collection trends and economic factors.
Pension surplus valuation	The committee considered the actuarial assumptions used in the valuation of the future liabilities, as set out in note 24: • longevity estimation for scheme members, • rate of return on the scheme assets, • calculation of the present value of pension liability, • tax deduction, and • other demographic factors.

AUDIT AND RISK ASSURANCE COMMITTEE "ARAC" REPORT (continued)

External Auditors

The Company's external auditor is PricewaterhouseCoopers LLP ("PwC") who have been the Company's auditors since 2012.

In accordance with best practice and professional standards, the Company requires its external auditor to adhere to a rotation policy whereby the audit partner is rotated after 5 years. The external auditor is also required to periodically assess whether, in its professional opinion, it is independent and to share those views with the Committee.

The audit partner is Colin Bates who became the audit partner on 1 April 2017.

As a Public Interest Entity with debt listed on the London Stock Exchange, the Company is subject to the mandatory audit and rotation requirements of the European Union. This means that the Company will put the external audit out to tender at least every ten years, and change auditors at least every twenty years. Under current regulations the External Audit must be put out to tender by 2022.

Independence
In order to ensure the independence and objectivity of the external auditors, the Committee has 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.

Effectiveness
To assess the effectiveness of the external auditors, the Committee has 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.

Non Audit fees
The Company has a policy for the provision of non-audit services aimed at safeguarding and supporting the independence and objectivity of the external auditor. The policy sets out the approach taken when using the services of the external auditor including non-audit services which are prohibited.

Before approving non-audit services, the Board considers whether it is in the interest of the company that the services are procured from PwC rather than another supplier. Where PwC have been chosen, this is based on their detailed knowledge of our business and understanding of the Water Industry as well as demonstrating the required expertise.

AUDIT AND RISK ASSURANCE COMMITTEE "ARAC" REPORT (continued)

Non-audit services where the external auditor may be used include: audit related services required by statute or regulation, regulatory support and Corporate Responsibility report reviews.

During the year, PwC received £57,972 in fees relating to the audit services they provided to the Company, including audit related assurance work. Non-audit related work undertaken amounted to £129,228 and significant work is set out below.

Nature of Service	**Reason for PwC appointment**	**Fees £'000**
Audit related assurance services		
Assurance of regulatory returns	Audit of sections 1 & 2 of the Annual Performance report is closely linked to the Statutory Audit and the two are performed in parallel.	37
Other assurance services		
Assurance in connection with Ofwat regulatory reports	Agreed upon procedures relating to Wholesale Charges and RCV allocation.	10
PR19 support	Water Industry knowledge and expertise in project planning, preparing evidence, drafting and editing business plans in the water and energy sector.	81
Inform subscription	Access to technical information	1
Total 2017/18 non-audit fees		**129**

PwC were selected to be our "Strategic Partner" to review our business plan and make recommendations after comparing it to the strategic requirements of PR19, and to provide advice in respect of assurance required and reports received. A selection process followed an open competition of major audit firms and smaller independent companies in the autumn of 2016. PwC were selected for their operational insight and experience of the values and attributes required in the business plan submission to Ofwat. This team are based in the London office, whereas the audit work is performed by a team from the local Bristol office with a different management structure and expertise. A requirement of the selection process was that there is a clear ring-fencing of the separate functions. ARAC has no reason to believe ring fencing is not effective practice.

The detail of auditors' remuneration is provided in note 6d of the financial statements.

Internal auditors

Internal audit services to the Company are provided by Mazars an international company specialising in audit accountancy, tax, legal and advisory services. The Mazars audit manager regularly attends meetings of the ARAC to present their internal audit reports and key findings and any audit follow up reports. The internal audit plan is prepared annually in conjunction with the Committee, the executive management team of the Company. The plan focuses on key areas of financial and corporate compliance which are important to the integrity of the financial statements.

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.

PR19 SUB-COMMITTEE REPORT
- Tim Tutton, Chair of the PR19 Sub-Committee

Introduction

As Chairman of the PR19 Sub-Committee, I am pleased to introduce the PR19 Sub-Committee report detailing its role and the work undertaken by the Sub-Committee during the year.

The PR19 Sub-Committee plays a key role in supporting the Board on its responsibility for oversight of the development of Bristol Water's Business Plan for the next Ofwat price review period from 2020 to 2025. The final Business Plan will be submitted to Ofwat in September 2018.

The PR19 Sub-Committee is formally constituted with terms of reference approved by the Board in November 2016. The PR19 Sub-Committee is chaired by Tim Tutton, and comprises one independent non-executive director which was Tony Hemus and he has been replaced by Paul Francis in June 2018, one non-executive director Paul Malan, the CEO, and the CFO. The Director of Strategy & Regulation attends the meetings.

Attendance during the financial year

Members of the Committee	Meetings attended	Max Possible
T Tutton, Chair	14	14
T Hemus, Non-Executive (resigned 19 June 2018)	14	14
P Malan, Non-Executive	14	14
M Karam, Chief Executive Officer	14	14
M Axtell, Chief Financial Officer (resigned 13 July 2018)	14	14

PR19 Sub-Committee Responsibilities

Under the chairmanship of Mr Tutton the primary function of this sub-committee is to ensure that the PR19 Business Plan is governed appropriately, diligently developed and robustly challenged to ensure that it meets the expectations of customers, regulators and other stakeholders.

The PR19 Sub-Committee will:

- provide strategic guidance on the content and direction of the PR19 Business Plan to the executive management team;
- provide assurance to the Board of the Company that Ofwat's strategic requirements for the price review have been addressed within the Company's submission and engagement with customers, regulators and other stakeholders;
- agree the areas of the Business Plan that requires assurance and provide subsequent continued oversight of the assurance framework;
- agree the most appropriate source of assurance (internal/external, nature of consultancy); and
- ensure all assurance recommendations have been considered and applied appropriately.

To support the PR19 Sub-Committee in all the above functions PwC has been appointed as Board Assurance Partner. In addition to PwC who advise on assurance plans, the Company has appointed further experts to provide independent assurance on such things as: investment planning; data tables; corporate modelling; cost adjustment claims; customer engagement; and efficiencies.

PR19 Sub-Committee meetings

The sub-committee is required by its terms of reference to meet no less than four times each calendar year. However, it has been meeting more frequently this calendar year as the plan moves to maturity.

In addition to the normal sub-committee meetings the committee meets to delve more deeply into specific elements of the business plan development ('deep dives'). These meetings provide the opportunity to focus additional time on important and complex matters affecting the plan.

DIRECTORS' REMUNERATION REPORT

Annual Statement by Chair of the Remuneration Committee

Introduction

I am pleased to present, on behalf of the Board, our Directors' Remuneration report in respect of the year ended 31 March 2018 together with our approach to remuneration for Executive Directors for 2018/19.

This report has been prepared under the principles of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 governing the content of remuneration reports and the provision of the Companies Act 2006.

The Board has reviewed the Company's compliance with its policy on remuneration-related matters. It is the opinion of the Board that the Company complied with all remuneration-related aspects of this policy during the year as detailed in the table below.

Key matters

In the year under review the Company has met its many challenges, delivering on the AMP6 programme for our customers whilst continuing to implement a new operating model and embedding subsequent ways of working.

The Committee continues to take a disciplined approach to ensure our remuneration framework supports the strategic direction of the Company. This section summarises the key matters considered by the Committee and decisions made during the year.

- **Salary** - A review of the impact of inflation on salaries was conducted in 2017/18 resulting in a 3.0% increase in base salary as of April 2018 for all employees, including the Chief Executive Officer ("CEO"). The Chief Financial Officer ("CFO") did not receive an increase in base salary as he has resigned from the Company. The Company consulted with representatives of the recognised Trade Unions prior to agreeing the base salary increase. This salary increase compares to the 1.5% awarded with effect from 1 April 2017.

- **Annual bonus** - The Committee gave consideration to the objectives and targets of the Company's annual bonus scheme for 2017/18, in which all employees participated during the year.

The following sets out the annual bonus payments for executive directors awarded in respect of 2017/18. A summary of the annual bonus performance measures and the extent to which performance was achieved is set out on page 104.

Directors	**Proportion of maximum bonus achieved**	**Bonus Payment**
Mel Karam - CEO	60.0%	£82,800
Mick Axtell – CFO	Mick Axtell tendered his resignation on 6 October 2017 and left the Company on 13 July 2018. He is therefore no longer eligible to receive a bonus in respect of 2017/18.	

- **Pension** - The Company continues to operate a company stakeholder (defined contribution) scheme. All employees are now enrolled in this scheme with matching employer contributions (to a maximum employer contribution of 6%), unless they have "opted out".

DIRECTORS' REMUNERATION REPORT (continued)

- **Long Term Incentive Plan ("LTIP")** - The Company operates an LTIP for the CEO and CFO only. This LTIP is based on performance delivered over the AMP6 period from 1 April 2015 to 31 March 2020 and was granted on 15 May 2017. Participants can earn up to 34.2% of salary for each year of the plan based on the Company's performance against long-term strategic goals of the Company, including customer outcomes. There was no payment made in respect of the LTIP during the year as there was no payment due. Further details are provided on page 108.

- **Departing directors** – Mick Axtell, CFO, resigned on 6 October 2017 and left the company on 13 July 2018. During this period, Mr Axtell continued to receive his base salary, pension and benefits as set out in this report. Due to his resignation Mr Axtell is not eligible to receive a bonus in respect of 2017/18 or for the portion of the 2018/19 financial year during which he is in employment. Mr Axtell will be no longer eligible to receive a payment under the LTIP.

- **New appointment** – Laura Flowerdew has been appointed as CFO and she will be joining Bristol Water on 1 October 2018. She will be paid a base salary of £150,000 per annum and will be eligible to participate in the Annual Cash Incentive Plan ("ACIP") bonus scheme and LTIP from this date.

- **Implementation of remuneration policy in respect of 2018/19** – There are two changes in remuneration policy proposed for 2018/19, relating to the ACIP annual bonus scheme:
  1. The ACIP bonus will change from 90% on financial, strategic and operational business objectives and 10% on the achievement of role specific strategic objectives to 80% and 20% respectively.
  2. A malus/ clawback clause will be added to the ACIP rules in line with best practice principles.

- The annual bonus opportunity will continue to be 60% of base salary for the CEO and 30% of base salary for the CFO (Mr Axtell will not be eligible for a bonus in respect of 2018/19). The LTIP will operate as set out on page 98.

- **Remuneration and Standards of Performance** –Directors' basic salary is not linked to performance targets. However bonuses paid by the Company are based on performance against targets linked to the standards of performance of the Company. Details of bonus outcomes and performance for 2017/18 can be found on page 104.

Tim Tutton
Remuneration Committee Chairman
13 July 2018

DIRECTORS' REMUNERATION REPORT (continued)

Role and composition of the Remuneration Committee

The Committee makes recommendations to the Board on the overall remuneration strategy, and on the remuneration 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 of Tracey Wood (resigned 19 June 2018), Chair, Rob Davis (retired 23 November 2017), Tim Tutton (Chair from 22 June 2018), Tony Hemus (resigned 19 June 2018), Paul Malan and Hajime Ichishi. Paul Francis was appointed to the Committee on 25 June 2018.

Member of Committee	Meetings attended	Max possible
T Wood, Chairman (resigned 19 June 2018)	3	3
R Davis, Non-Executive (retired 23 November 2017)	1	1
T Tutton, Non-Executive, Chairman from 22 June 2018	3	3
T Hemus, Non-Executive (resigned 19 June 2018)	3	3
H Ichishi, Non-Executive	3	3
P Malan, Non-Executive	3	3

Member's biographies are given on pages 73 to 74. The Committee was chaired by Tracey Wood until her resignation on 19 June 2018. Tim Tutton became Chair on 22 June 2018. The Company Secretary is secretary to the Committee.

The Committee is formally constituted with written terms of reference. A copy of the terms of reference is available on the Company's website.

During the year the CEO, HR Director and Company Secretary provided advice and services to the Committee. Guidance was also obtained from Willis Towers Watson to support decisions on the Company's grading structure and remuneration strategy, Reward Risk Management for salary benchmarking and from Deloitte LLP (Deloitte), in respect of the new LTIP. The total fees paid to Willis Towers Watson in the year for services to the Committee were £5,039 (2017 - £2,650). The total fees paid to Reward Risk Management in the year for services to the Committee were £10,296 (2017 - £nil). The total fees payable to Deloitte for services carried out to the Committee are £2,950 (2017 - £6,965). Fees charged by Deloitte, Willis Towers Watson and Reward Risk Management are on a time and material basis. Deloitte also provided tax services during the year to the Company.

Deloitte and Willis Towers Watson are founding members of the Remuneration Consultants Group and adhere to its Code in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice received from Willis Towers Watson, Reward Risk Management and Deloitte is independent. No director played a part in any decisions about his or her 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.

Executive Directors' remuneration policy

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

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

DIRECTORS' REMUNERATION REPORT (continued)

Summary of Directors' remuneration policy

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 2017/18 and changes implemented for 2018/19.
Salary	To 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 market data provided by a selected market leading provider, 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.	Base salary increases are applied in line with the outcome of any Company wide annual pay award following a review conducted by the Committee in consultation with trade unions. Increases will normally be in-line with the increases awarded to the rest of the Company workforce.	The salary for the CEO was increased by 3% with effect from 1 April 2018 in line with the Company wide annual pay award. Salaries will next be reviewed with effect from 1 April 2019.
Annual bonus (Annual Cash Incentive Plan)	To drive and reward performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy, and customer outcomes Ofwat's measures of success.	2017/18 Annual bonus is based: - 90% on achieving certain business objectives; and - 10% on the achievement of role specific strategic objectives Business objectives include customer service and operational targets are set around measurable outcomes which the Company believes are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the Ofwat customer service measure, the SIM. Bonus scheme targets are set annually. Arrangement for the 2017/2018 annual bonus plan do not include provisions that would enable the company to recover sums paid or withhold the payment of any sum under specific circumstances in which it would be appropriate and therefore do not comply with the Code in this respect.	Maximum of: • 60% of base salary for the CEO • 30% of base salary for the CFO save in exceptional circumstances.	For 2018/19 Annual bonus is based: - 80% on achieving certain business objectives; and - 20% on the achievement of role specific strategic objectives - Introduction of a malus and clawback into the bonus rules for 2018/19 award
LTIP	Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives. Align CEO and CFO long-term interests with those of customers, long-term shareholders and other stakeholders.	The LTIP is based on performance over the AMP6 period from 1 April 2015 to 31 March 2020. LTIP awards are based on the Company's performance against long term strategic goals of the Company including customer outcomes. 50% will be paid following the end of AMP6 with the remaining 50% paid one year later. Awards may be subject to malus and clawback as described below There is no share option scheme in operation.	The maximum payment is 34.2% of salary for each year of the performance period the director is in employment with an expected minimum payment of £55,000p.a. for Mel Karam	The LTIP will continue to operate during 2018/19.

DIRECTORS' REMUNERATION REPORT (continued)

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2017/18 and changes implemented for 2018/19.
Pension	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Pension contributions are made to the Company stakeholder schemes at a specified percentage of basic salary.	Maximum Employer contribution of 6% of base salary.	No change for 2018/19.
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. CEO entitled to 1 year relocation expenses until 31 March 2018.	N/A	Relocation expenses for Mel Karam have been extended beyond 31 March 2018.

Malus and clawback provisions

The Annual Bonus (in respect of 2018/19 and subsequent financial years) and LTIP are subject to 'malus' and 'clawback' provisions as set out below:

Annual Bonus (Annual Cash incentive Plan ('ACIP'))	LTIP
A 'malus' and 'clawback' provision has been included in the rules for the Annual Bonus in respect of 2018/19 and subsequent financial years Prior to the second anniversary of the payment date for the Annual Bonus the Committee may require repayment of all or part of the bonus in the event of: (i) a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus; or (ii) in the event of dismissal due to gross misconduct in the bonus year or in the event of criminal behaviour.	Prior to the vesting of an LTIP award the Committee may determine that the award is reduced (including to zero), or the basis is amended, or that additional conditions are placed on an award in the event of: (i) a material misstatement in financial results, (ii) error in assessing performance measures, (iii) the information on which the award was made, (iv) a material failure of risk management, (v) serious misconduct, (vi) a significant failure in operations or risk management which come to the attention of Ofwat, (vii) serious reputational damage to the corporate Group, (viii) or any other circumstance which the Committee considers to be similar in their material nature or effect as those instances above. Prior to the second anniversary of the end of the LTIP performance period the Committee may require repayment of all or part of the award payment in the event of (i) to (viii) above occurring. The malus and clawback rules do not apply to the CEO's guaranteed payment.

Remuneration in different performance scenarios

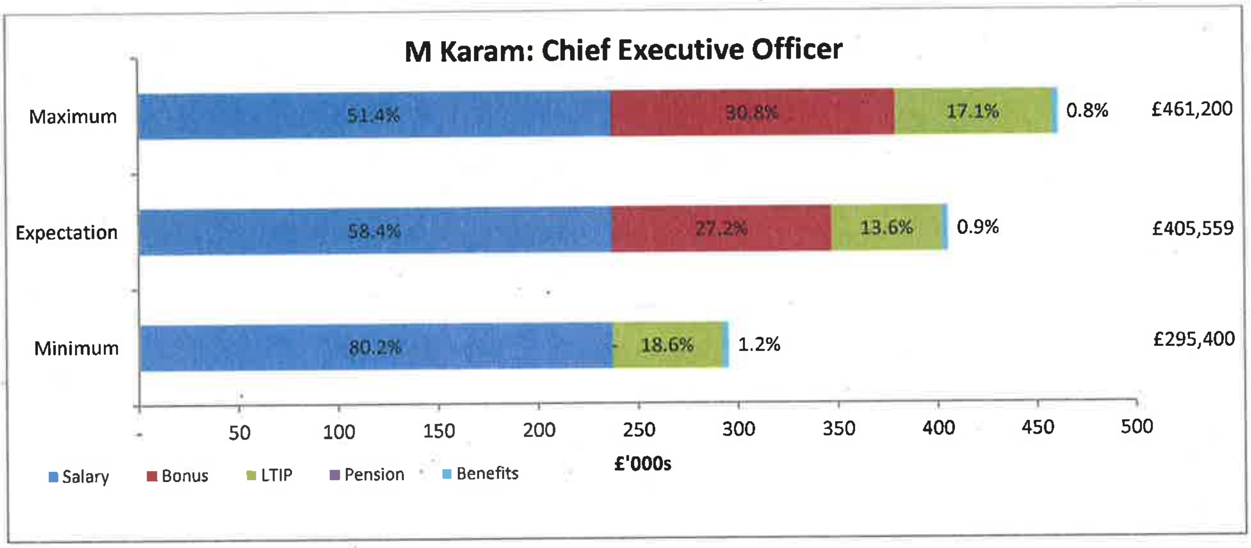
In line with the Remuneration Reporting Regulations requirements, the chart below illustrates the CEO's remuneration package under three different performance scenarios: Minimum, performance in-line with expectations and maximum.

The chart has been based on the following assumptions:

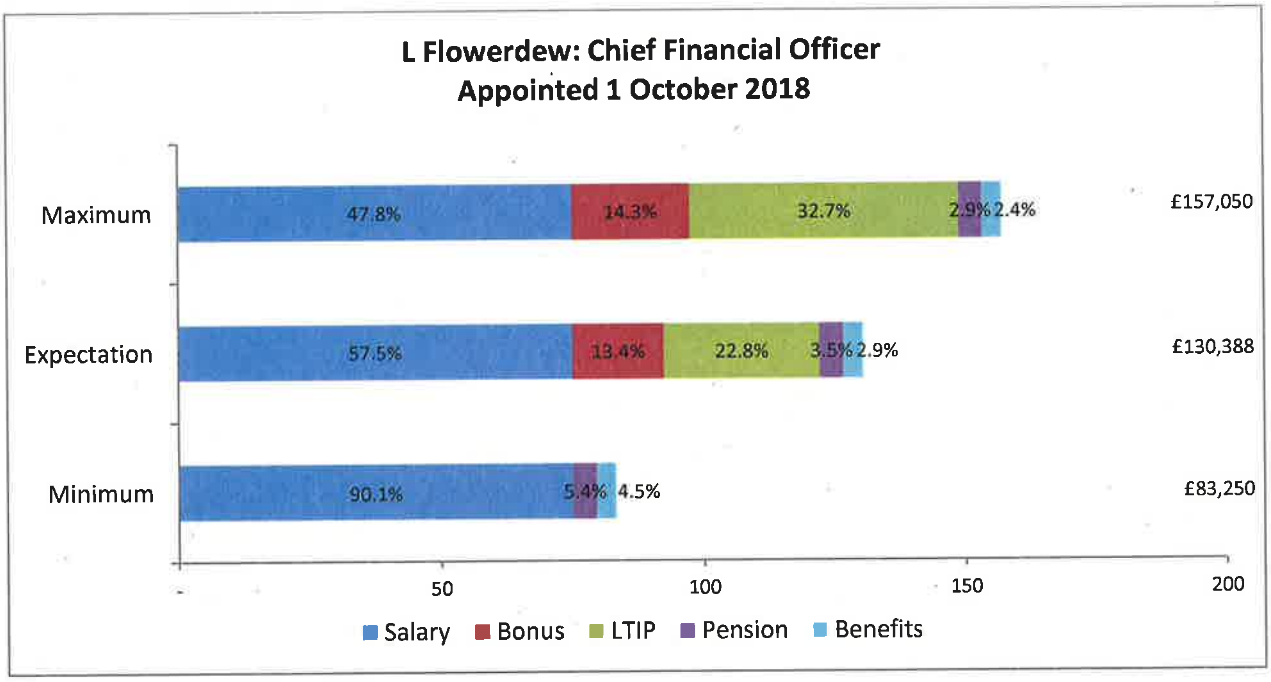
- Minimum = fixed pay (base salary, benefits and pension)
- In-line with expectations = fixed pay plus 50% of maximum bonus pay-out and 50% pay-out under the LTIP which has accrued in the year.
- Maximum = fixed pay plus 100% of bonus pay-out and 100% LTIP pay-out. It is the opinion of the Committee that the maximum level is highly unlikely to be reached given the stretching nature of the targets set.

DIRECTORS' REMUNERATION REPORT (continued)

- Salary levels (on which other elements of the package are calculated) are based on those applying on 1 April 2018. The value of taxable benefits as disclosed in the single figure for the year ending 31 March 2018. Pension is based on a fixed percentage of base salary linked to employee contribution up to a maximum employer contribution of 6%.



No chart is shown for Mr Axtell, the previous CFO, as he has resigned and left on 13 July 2018.



DIRECTORS' REMUNERATION REPORT (continued)

Remuneration policy for the appointment of new Executive Directors

When recruiting an executive director, 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 director 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.

Directors' appointments

The dates of each of the director's original appointment and expiry of current term are as follows:

Directors	Employment contract date	Expiry of current term	Next AGM at which the director will stand for re-election	Notice period
Executive Directors				
M Karam	15 May 2017	11 September 2020	2020	Rolling 6 months
M Axtell*	11 November 2015	11 September 2020	Not applicable	1 year
Non-Executive Directors	**Date appointed to the Board**			
K Ludeman	26 July 2012	7 September 2018	2018	1 month
T Tutton	1 January 2015	7 September 2018	2018	1 month
T Hemus**	1 April 2016	12 September 2019	Not applicable	1 month
T Wood**	1 January 2017	11 September 2020	Not applicable	1 month
H Ichishi	10 May 2012	7 September 2018	2018	1 month
P Malan	7 July 2016	12 September 2019	2019	1 month
I Dhar	8 May 2018	9 September 2021	2018	1 month
P Francis	25 June 2018	9 September 2021	2018	1 month

* The Company agreed a shorter notice period with Mick Axtell who left the business on 13 July 2018.
** Resigned 19 June 2018

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 salary and benefits 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.

Where an executive leaves they would normally forfeit entitlement to any future bonus payment. In certain circumstances, however, the Committee may determine that it is appropriate for an executive director to continue to receive an annual bonus for the year of departure. Such payment would normally be pro-rated to reflect the period in employment, based on the extent to which performance against objectives is achieved and paid at the usual time. The Committee may determine that an alternative treatment should apply.

Under the LTIP, executives would normally forfeit entitlement to payments under the LTIP unless they left in a "Good Leaver" special circumstance. "Good Leaver" include: injury, disability, ill-health, or death; redundancy (within the meaning of the Employment Rights Act 1996); retirement as determined by the relevant Group Company; or any other reason the Committee determines in its absolute discretion. If the executive is a Good Leaver then they would normally continue to be entitled to a payment under the plan based on the length of time they have participated in the plan and the extent to which the performance conditions have been met.

DIRECTORS' REMUNERATION REPORT (continued)

Payments would be made at the normal time. The Committee retains discretion that an alternative treatment should apply in accordance with the plan rules.

Mick Axtell, CFO, has given notice of resignation which is effective on 13 July 2018. During his notice period Mr Axtell continued to receive base salary, benefits and pension. Mr Axtell will not be eligible to receive a bonus in respect of 2017/18 or in respect of 2018/19. Mr Axtell will also no longer be entitled to receive any payment under the LTIP.

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

Remuneration policy for non-executive directors

The remuneration of the independent Non-Executive directors, other than the Chairman, is determined by the Board following consultation between the Chairman and the CEO. It 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. The Chairman's fee is determined by the Board, following consultation between the Committee and the CEO.

Non-executive directors do not have contracts of employment, do not participate in the Company designated pension schemes or incentive schemes and do not receive any benefits. Non executives are paid reasonable expenses and the company may settle any tax arising in relation to such expenses. The terms of appointment do not entitle non-executive directors to receive compensation in the event of early termination of their appointment.

Fees for any newly appointed non-executive director would be in-line with the above policy. The table below sets out our current policy in relation to fees paid to non-executive directors.

Position held by Non-Executive Director	Fee
Chairman of the Board	£100,000
Chair of ARAC	£44,000
Chair of Remuneration Committee	£41,000
Senior Independent Non-Executive Director	£38,000
Non-Executive Director	£36,000

Shareholder and employee input in setting remuneration policy

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

The Committee does not consider it appropriate to consult with the general workforce on matters of executive remuneration, but it has regard to the levels of remuneration throughout the workforce when considering pay for Executive Directors to achieve an appropriate balance.

Application of remuneration policy in 2017/18

This section has been prepared under the principles of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The information has been audited as indicated.

DIRECTORS' REMUNERATION REPORT (continued)

Single total figure for remuneration of executive directors for 2017/18 (audited)

	M Karam		L Garcia[1]		M Axtell		M King[2]	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Salary/fees	230	-	-	173[3]	147	138[4]	-	-
Annual Bonus	83	-	-	35	-[5]	37	-	-
Benefits	36	-	-	8	5	4	-	-
Pension	10	-	-	10	9	8	-	-
Single Figure pre-LTIP	359	-	-	226	161	187	-	-
Change since prior year	-	-	-	*(12.1%)*	*(13.9%)*	*6.2%*	-	-
LTIP6	-	-	-	47	-	2	-	55
Single Figure	**359**	**-**	**-**	**273**	**161**	**189**	**-**	**55**

1 Mr Garcia resigned as the CEO on 15 December 2016; the remuneration above reflects nine months' service.

2 Mr King resigned as the Regulation Director on 31 December 2015. The payment in 2016/17 relates to part payment of £118k consideration for compensation for loss of office, as agreed by both parties.

3 The salary for Mr Garcia includes £27k for payments he was entitled to on leaving under his contract, comprising of £10k for his remaining holiday for 2016 and £17k for one month's salary.

4 Following the resignation of Mr Garcia, Mr Axtell was appointed as Interim CEO until 31 March 2017.

5 Mr Axtell resigned on 6 October 2017 and was not eligible to receive a bonus for 2017/18

6 The LTIP payment in 2016/17 relates to 2014/15 LTIP and represents the benefit earned from performance measures which were met during 2014/15. As disclosed in the 2014/15 Directors' Remuneration Report 48.08% out of maximum of 60% paid out in relation to the LTIP for the AMP5 period. The payments were made in two equal instalments on 30 September 2015 and 30 June 2016 subject to the participants continuing employment. The amount disclosed in the table relates to the second instalment of the LTIP.

Included within the Financial Statements is an accrual for the AMP6 LTIP; however this is not shown above as the LTIP has not vested in the period and the components of the LTIP are dependent on the performance in future years

Bonus includes amounts earned based on performance during 2017/18, which have been accrued and approved, but not paid as at 31 March 2018 and relates to the period served as a director.

Salary (audited)

A salary review conducted by the Committee during 2016/17 resulted in a 1.5% increase in base salary effective from April 2017 for all employees, including the CFO but not the CEO as his employment did not commence until 1 April 2017.

Annual bonus for 2017/18 (audited)

The maximum opportunity for the CEO for the year ended 31 March 2018 is 60% of base salary and 30% of base salary for the CFO. However, as the CFO left on 13 July 2018 he is no longer eligible for a bonus in line with the rules of the scheme.

The table below represents the business performance measures which form 90% of the basis of the bonus. In addition to these performance measures, the remaining 10% of Executive Director bonus is based on a role specific measure which is determined by the Remuneration Committee.

The achievement of the performance measures has been reviewed, with appropriate input from the ARAC, following the end of the 2017/2018 financial year. The maximum 2017/2018 bonus opportunity against each of the main performance measures is shown below together with the award actually received. During the year under review, role specific objectives were set for each executive director. For Mel Karam this was in relation to Talent Management and Succession Planning.

Throughout the year Mel Karam has enhanced the management bench strength and improved succession planning by filling key strategic openings and providing development opportunities. A new strategy is in place for the development of high potential employees.

Performance against these objectives, together with business performance and bonus scheme entitlement, dictates the amount of bonus awarded. Key performance highlights include:

- *Step change in volume of operational activities delivered within the year.*
- *Creation of a new Asset Management capability.*
- *A new Health & Safety team focusing on improving performance as well as practices.*
- *Our long-term strategy, 'Bristol Water....Clearly', has been developed and published.*
- *Strong market performance in the first year of Business Retail Market.*

DIRECTORS' REMUNERATION REPORT (continued)

Mel Karam was assessed as achieving 10 out of 10 for this measure and Mick Axtell was not eligible due to his resignation.

Category	Category Weighting	Sub category	% of Total	Measure	Performance	Score	Weighted score
Health & Safety Internal Report of Normalised data	**20.0%**	1.1 AFR - employees	**15.0%**	AFR = (No. of accidents x 100,000) / (No. man hours worked) [employees]	2.732	81.8%	12.3%
		1.2 LTIFR - contractor rates	**5.0%**	LTIFR=(No of Lost Time Injuries x 100,000) / (No hours worked) (Contractors)	1.768	0.0%	0.0%
Financial Accounts	**20.0%**	2.1 Budgeted Opex	**10.0%**	Budgeted opex of £62.7m Judgement to be taken by RemCom on overspends where there is a decision to invest further than budget envisaged	62.86	77.6%	7.8%
Internal Capital Delivery Plan		2.2 Capex to Meet Obligations	**10.0%**	As measured against the 2017/18 Wholesale Budget for firm obligations only (e.g. SRS, meters, lining etc.) SRS - £16.6m to deliver Project and pipeline available for use by 31st March 2018 Meters - £6.0m to deliver meter penetration of 53.8% by 31st March 2018 Mains - £12.4m to deliver 17.5 km of mains replaced by 31st March 2018	28.22	86.0%	8.6%
ODIs Performance Commitments	**20.0%**	3.1 Domestic Meter Penetration	**6.7%**	Percentage of all properties metered, measured against internal target for 2017/18, which is lower than the Regulatory profile for the year to reflect planned catch up profile.	52.67%	57.5%	3.8%
		3.2 Unplanned Customer Minutes Lost	**6.7%**	As per the modified ODIs from the CMA	73.01	0.0%	0.0%
		3.3 Leakage *	**6.7%**	Targets in line with BW KPIs	46.6	36.0%	2.4%
SIM Ranking Ofwat Customer Experience Survey Full Year 2017/18 Final Results	**15.0%**	SIM Ranking	**15.0%**	SIM Ranking for the year as published by Ofwat	11	0.0%	0.0%
PR19 RemCom	**15.0%**	PR19 Draft Business Plan	**15.0%**	Delivering the results to March 2018	Yes	100.0%	15.0%
Role Specific RemCom	**10.0%**	Talent Management / Succession Planning	**10.0%**	Measured on score out of 10 as determined by Remuneration Committee.	10	100.0%	10.0%
	100.0%		**100.0%**				**59.9% Rounded to 60.0%**

* The ODI Leakage calculation incorporates a value for Non Household Night Use (NHH NU) which was used during the period of the PR14 leakage target setting. In 2016 the model behind the Night Use assessment was updated which resulted in a higher Non Household Night Use allocation, and effectively reduced Leakage. **The updated Leakage calculation is a better assessment of the true level of leakage as it uses the most up to date data and reflects therefore our leakage performance accurately.**

For our ODI performance we will continue using the old NHHNU figure and the resulting leakage assessment. The difference between the ODI leakage (49.58 Ml/d) and actual leakage (46.64 Ml/d) for 2017/18 was approx. 3 Ml/day.

DIRECTORS' REMUNERATION REPORT (continued)

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

M Karam 60.0% of maximum bonus entitlement, i.e. 35.92% of year end base salary
M Axtell Not eligible for a bonus due to resignation

Mel Karam's bonus was based on his salary at the end of the year.

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)

For executive directors benefits include the provision of a company car or equivalent cash allowance, and private medical insurance. 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.

Pension arrangements (audited)

At 31 March 2018, no director was accruing benefits under the Company's defined benefit pension scheme.

Mr Karam became a member of the Company designated stakeholder pension scheme in April 2017 under the Government's pension auto-enrolment legislation. Since that time, and until his decision to leave this scheme in January 2018, the Company made contributions equivalent to 6% of annual base salary to the scheme on Mr Karam's behalf. Contributions paid to the scheme for the financial year totalled £10,350 (2016/17: £nil).

At 31 March 2018, Mr Axtell was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme during the financial year was £8,831, an amount equivalent to 6% of annual base salary (2016/17: £8,300).

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 2018 none of the directors had any interest in the ordinary or preference shares of the Company.

Single total figure for remuneration of non-executive directors for 2017/18 (audited)

	Salary/fees	
	2017/18 £'000	**2016/17 £'000**
K Ludeman (Chairman)	100	100
R Davis	23	36
T Tutton	38	38
T Hemus	44	42
T Wood	41	10
C Curling	-	37
P McIlwraith	-	7
H Ichishi[1]	-	-
M Smerdon[1]	-	-
P Malan[1]	-	-
Single Figure	**246**	**270**

DIRECTORS' REMUNERATION REPORT (continued)

[1]No remuneration has been paid by the Company.
The non-executive directors do not receive a bonus or any other benefits.

Change in CEO's Remuneration

The following table shows the total remuneration payable by the Company to Luis García, the CEO, in respect of service for the period from 1 April 2012 to 15 December 2016, the remuneration payable to Mick Axtell as interim CEO for the period to 31 March 2017 and the remuneration payable to Mel Karam, the CEO, for the period 1 April 2017 to 31 March 2018.

	Year ended 31 March:								
	Luis Garcia						Mick Axtell	Total for 2017	Mel Karam
	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017[1] £'000	2017[2] £'000	2017 £'000	2018 £'000
Base salary	156	185	189	194	194	173	42	215	230
Annual bonus									
Annual bonus	33	58	54	51	40	35	11	46	83
Annual bonus as proportion of salary	*21%*	*31%*	*29%*	*27%*	*21%*	*24%*	*26%*	*25%*	*36%*
Maximum bonus achievable (of base salary)	*36%*	*36%*	*36%*	*36%*	*30%*	*30%*	*30%*	*30%*	*60%*
Proportion of maximum bonus achieved	*59%*	*87%*	*79%*	*73%*	*68%*	*81%*	*84%*	*87%*	*60%*
LTIP earned	-	-	48	187	-	-	-	-	-
LTIP as proportion of salary	*0%*	*0%*	*25%*	*95%*	*0%*	*0%*	*0%*	*0%*	*0%*
Benefits	8	9	9	10	11	8	1	9	36
Pension	-	-	6	12	12	10	2	12	10
Total remuneration	197	252	306	454	257	226	56	282	359

1 The remuneration for the current year reflects that Mr Garcia resigned as CEO on 15 December 2016. It includes £27k for payments he was entitled to on leaving under his contract. His bonus was based on the salary excluding these amounts i.e. his salary pro-rated to the proportion of the year that he was in post (£145k).
2 The above table apportions Mick Axtell's remuneration to reflect the period that he was interim CEO from 16 December 2016 to 31 March 2017.

The 2014/15 LTIP payments were made in two equal instalments; the first instalment was paid on 31 December 2015 and the second instalment was paid on 25 November 2016.

Percentage Change in Remuneration for the CEO Compared to all Employees

- **Salary** – The salary paid to the individual undertaking the role of CEO for 2017/18 increased by 7.0% compared to 2016/17. The average salary for other employees for 2017/18 increased by 2.8% compared to 2016/17.
- **Annual bonus** - The bonus awarded to the CEO for 2017/18 increased by 79.7% compared with the prior year (2016/17: increase of 15.4%). The total bonus paid to employees, excluding the CEO, for the period is £1.2m compared with £1.1m in 2016/17. The average bonus payment per employee for 2017/18 was £747 (2016/17: £800). This is the average bonus for those at the lowest grade group.
- **Benefits** - Benefits, including benefits in kind, payable to the CEO increased by 358.0% for 2017/18 compared with the prior year (2016/17: decrease 27.3%). Benefits have increased this year as relocation and subsistence costs were paid by Bristol Water on behalf of the CEO. Benefits payable to all other eligible staff have remained constant compared with the prior year (2016/17: constant).

DIRECTORS' REMUNERATION REPORT (continued)

Relative importance of spend on 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 2018		Year ended 31 March 2017
	£m	**Change compared to prior year %**	**£m**
EBITDA	51.4	1.13%	50.8
PBT	15.4	(26.35%)	20.9
Payments to shareholders:			
Base level dividends	4.0	(33.33%)	6.0
Inter-company loan interest related dividends	3.3	3.13%	3.2
Payments to employees:			
Wages and salaries excluding directors	17.7	15.16%	15.4
Wages and salaries including directors	18.5	13.76%	16.3

The base level dividends comprise £4.0m due to working capital requirements of Water 2 Business Limited.

How the remuneration policy will be applied in 2018/19

The same remuneration policy as outlined above will be applied during 2018/19.

Salary

As outlined above, a review of the impact of inflation on salaries was conducted in 2017/18 resulting in a 3.0% increase in base salary as of April 2018 for all employees, including the CEO. The CFO did not receive a base salary increase as April 2018. The salaries for 2018/19 for executive directors are therefore as follows:

Executive Director	**Salary 2018/19**
CEO Mel Karam	£236,900
CFO Mick Axtell (to 13 July 2018)	£147,000
CFO Laura Flowerdew (from 1 October 2018)	£150,000

Annual bonus

The annual bonus scheme will continue to operate for all employees. The CEO and CFO will continue to operate under the separate ACIP scheme.

The maximum bonus for 2018/19 for the CEO is 60% reflecting the leadership required and criticality of the role. The maximum bonus opportunity for 2018/19 for the CFO is 30%.

The performance weightings have been agreed as follows:

Measures	**Weighting**
Financial	10%
Outcome Delivery Incentive ("ODI")	15%
Customer Service	15%
Periodic Review 2019 ("PR19")	20%
Health and Safety	20%
Role specific	20%
Total	**100%**

Their achievement will be reviewed, with appropriate input from the ARAC at the end of the year.

DIRECTORS' REMUNERATION REPORT (continued)

2018 LTIP Grant (audited)

As set out above a new LTIP was approved at a Board meeting in March 2017 and grant was made to the two Executives on 15 May 2017. The performance period is 1 April 2015 to 31 March 2020. The period which the AMP6 LTIP relates to spans 1 April 2017 until 31 March 2020 for Mel Karam and 1 October 2018 to 31 March 2020 for Laura Flowerdew. Due to the resignation of Mick Axtell he is no longer eligible to benefit from this LTIP scheme. An estimate of the cost accrued to the end of March has been included in the 2017/18 accounts. The LTIP is based on achievement against the following performance conditions:

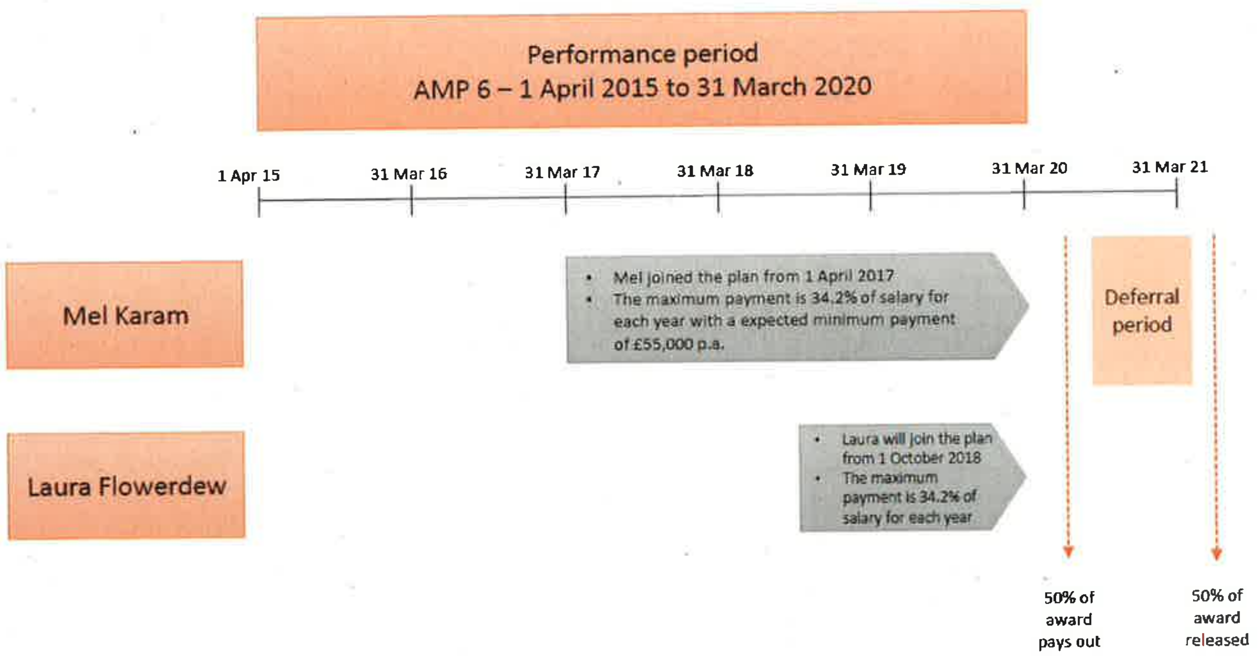
Performance Measure	**Weighting**
Totex Performance Measure	20%
Dividend Performance Measure	10%
Outcome Delivery Incentive ("ODI") Performance Measure	10%
Service Incentive Mechanism ("SIM") Performance Measure	10%
Company Monitoring Framework Performance Measure	10%
PR 19 Final Determination / Delivery Plan Performance Measure	15%
Asset Management Capability Assessment Performance Measure	25%

The maximum payment is 34.2% of salary for each year of the performance period the director is in employment subject to the achievement of the performance with an expected minimum payment of £55,000pa in respect of Mel Karam.

As soon as practical following the end of the Performance Period, the Committee shall determine the extent to which the Performance Condition has been achieved, and shall determine the Award Payment (if any).

50% of the Award Payment shall be paid as soon as practical after the Award Payment Determination Date and the remaining 50% shall be paid as soon as practical after the first anniversary of the Award Payment Determination Date.

Illustration of the timeline for the LTIP payment to CEO and CFO is shown below.



DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2018.

Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 34 to 38.

The total dividend paid during the year ended 31 March 2018 was 121.1p (2016/17: 153.3p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2017/18 (2016/17: £nil). The Company's practice for dividends to shareholders is contained in the Strategic Report on page 37.

Capital structure

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

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

Under its Articles of Association and the Companies Acts, the Company has in issue 5,998,025 ordinary shares as disclosed in note 9. All the ordinary shares are owned by Bristol Water Core Holdings Limited, which is itself a wholly owned subsidiary of the Bristol Water Group Limited 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 18 and 25.

Going Concern

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

The key risks to the Company are regulatory requirements and developments, operational events and performance problems. The Company is well placed to respond to the near future events, with cash of £15m available and committed borrowing facilities of £65.1m as at 31 March 2018. On 3 July 2017 the company entered into new credit facilities of £25 million with an expiry date of 7 December 2022.

The Company is not immune to the continuing financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver the current and future capital programmes. The Directors have considered the viability of the Company in accordance with the requirements for a viability statement which can be found on pages 38 to 41.

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

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

DIRECTORS' REPORT (continued)

Financial Risk Management

Details of financial risks faced by the Company and the related mitigating factors are included in note 20 to the financial statements.

Directors and their interests

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

K Ludeman, *Chairman*
M Karam, *Chief Executive Officer (appointed 1 April 2017)*
M Axtell, *Chief Financial Officer (resigned 13 July 2018)*
R Davis, *Independent Non-Executive (retired 23 November 2017)*
T Tutton, *Senior Independent Non-Executive*
T Hemus, *Independent Non-Executive (resigned 19 June 2018)*
T Wood, *Independent Non-Executive (resigned 19 June 2018)*
P Francis, *Independent Non-Executive (appointed 25 June 2018)*
M Smerdon, *Non-Executive (resigned 28 February 2018)*
H Ichishi, *Non-Executive*
P Malan, *Non-Executive*
I Dhar, *Non-Executive (appointed 8 May 2018)*

Keith Ludeman, Tim Tutton and Hajime Ichishi will offer themselves for re-election at the Annual General Meeting on in September 2018.

Catherine Jones was appointed as Company Secretary on 1 April 2017 and resigned on 31 January 2018. Colin Caldwell was appointed Company Secretary on 1 February 2018.

Service contracts

All current executive directors have service contracts, notice periods are detailed in the Remuneration Committee report on page 101.

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 Mr Ichishi with other companies within the Itochu group are not disclosed within this report.

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

Ultimate Parent Company and Controlling Party

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

Research and Development

The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2016/17: £0.1m).

DIRECTORS' REPORT (continued)

Financial Instruments

The details of the financial instruments are provided in note 3.14 to the financial statements.

Instrument of Appointment and Regulatory Accounts

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

Directors' Qualifying Third Party Indemnity Provisions

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

Auditors and Disclosure of Information to Auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Employees

Information on employment policies and practices is contained within the 'Best people right culture' part of the Strategic Report on pages 28 and 29.

Political donations

Bristol Water's policy is not to make any donations for political purposes in the UK or to donate to EU political parties. Accordingly, for the financial year under review, no political donations were made.

Environmental Matters

Information on environmental matters and KPIs are contained within the 'Environmentally sustainable' part of the Strategic Report on pages 21 to 24.

Greenhouse Gas Emissions

The disclosure required by law relating to the Company's greenhouse gas emissions (carbon emissions) are included in the Strategy section on page 23.

Outlook

Commentary on the main drivers of future profitability is contained in the Strategic Report on page 56.

DIRECTORS' REPORT (continued)

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed by Listing Rule 9.8.4R can be found on the following pages:

A statement of the amount of interest capitalised can be found on page 127. In line with current UK tax legislation, the amount is fully deductible against the company's corporation tax liability. Tax relief is £139,538.

Details of long term incentive schemes can be found on page 107.

Details of significant contracts between the company and directors can be found on page 110. During the year, there were no contracts for the provision of services to the company by a controlling shareholder.

There are no other disclosures to be made under Listing Rule 9.8.4.

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 111 and 113.

As required by the UK Corporate Governance Code and the Bristol Water Code, see page 79, the directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

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

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 the company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 73 and 74 confirm that, to the best of their knowledge:

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

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

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

Colin Caldwell

Colin Caldwell
Company Secretary
13 July 2018

INCOME STATEMENT
for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Revenue	3.2,5	114.9	111.0
Operating costs	6	(83.8)	(79.7)
Exceptional operating costs	6	(2.5)	-
Total net operating costs		(86.3)	(79.7)
Operating profit		28.6	31.3
Other net interest payable and similar charges	7	(12.1)	(9.3)
Dividends on 8.75% irredeemable cumulative preference shares	7	(1.1)	(1.1)
Net interest payable and similar charges		(13.2)	(10.4)
Profit before tax		15.4	20.9
Taxation on profit on ordinary activities	8	(3.6)	(0.9)
Profit for the financial year		11.8	20.0
Earnings per ordinary share	9	196.7p	333.3p

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Profit for the financial year		11.8	20.0
Other comprehensive income /(expense):			
Items that will not be reclassified to profit and loss			
Actuarial gain / (loss) on retirement benefit surplus	24	0.9	(0.6)
Attributable current taxation	8	-	(0.1)
Remeasurements of defined benefit pension scheme	8	(0.6)	(0.2)
Items that may be subsequently reclassified to profit and loss			
Change in the fair value of the interest rate swaps	19	1.5	0.2
Attributable deferred taxation	8	(0.3)	-
Other comprehensive income / (expense) for the year, net of tax		1.5	(0.7)
Total comprehensive income for the year		13.3	19.3

STATEMENT OF FINANCIAL POSITION
at 31 March 2018

	Note	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	10	599.4	573.4
Intangible assets	11	8.6	5.1
Other investments - Loans to a UK holding company	12	68.5	68.5
Deferred income tax assets	23	4.8	5.1
Retirement benefit surplus	24	33.5	32.3
		714.8	684.4
Current assets			
Inventory	13	1.6	1.1
Trade and other receivables	14,18	27.1	22.3
Cash and cash equivalents	15	15.0	16.1
		43.7	39.5
Assets classified as held for sale	16	0.2	8.1
Total assets		758.7	732.0
Non-current liabilities			
Borrowings and derivatives	18,20	(325.5)	(290.9)
8.75% irredeemable cumulative preference shares	18,25	(12.5)	(12.5)
Deferred income	21	(74.6)	(72.1)
Deferred income tax liabilities	23	(62.2)	(61.4)
		(474.8)	(436.9)
Current liabilities			
Current portion of borrowings and derivatives	18,20	(0.5)	(20.8)
Trade and other payables	17	(38.7)	(34.6)
Current portion of deferred income	21	(1.7)	(1.7)
Provisions for liabilities	22	-	-
		(40.9)	(57.1)
Liabilities classified as held for sale	16	-	(1.0)
Total liabilities		(515.7)	(495.0)
Net assets		243.0	237.0
Equity			
Called-up share capital	25	6.0	6.0
Share premium account		4.4	4.4
Other reserves		5.5	4.3
Retained earnings		227.1	222.3
Total Equity		243.0	237.0

The financial statements of Bristol Water plc, registered number 2662226 on pages 114 to 150, were approved by the Board of Directors on 13 July 2018 and signed on its behalf by:

Mel Karam, Director, CEO

Mick Axtell, Director, CFO

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2018

	Called up share capital	Share premium account	Capital redemption reserve	Hedging reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	6.0	4.4	5.8	(1.7)	212.4	226.9
Profit for the year	-	-	-	-	20.0	20.0
Other comprehensive income for the year:						
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	-	(0.6)	(0.6)
Attributable current taxation	-	-	-	-	(0.1)	(0.1)
Remeasurement of defined benefit scheme	-	-	-	-	(0.2)	(0.2)
Fair value of interest rate swap	-	-	-	0.2	-	0.2
Attributable deferred taxation	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	0.2	19.1	19.3
Ordinary dividends	-	-	-	-	(9.2)	(9.2)
Balance as at 31 March 2017	6.0	4.4	5.8	(1.5)	222.3	237.0
Balance as at 1 April 2017	6.0	4.4	5.8	(1.5)	222.3	237.0
Profit for the year	-	-	-	-	11.8	11.8
Other comprehensive income for the year:						
Actuarial gain recognised in respect of retirement benefit obligations	-	-	-	-	0.9	0.9
Remeasurement of defined benefit scheme	-	-	-	-	(0.6)	(0.6)
Fair value of interest rate swaps	-	-	-	1.5	-	1.5
Attributable deferred taxation	-	-	-	(0.3)	-	(0.3)
Total comprehensive income for the year	-	-	-	1.2	12.1	13.3
Ordinary dividends	-	-	-	-	(7.3)	(7.3)
Balance as at 31 March 2018	6.0	4.4	5.8	(0.3)	227.1	243.0

The Board has proposed a dividend of £nil in respect of the financial year 2017/18 (2016/17: £nil).

During the year the board approved dividends totalling £7.3m, representing £3.3m in relation to the intercompany loan with Bristol Water Holdings UK Limited ("BWHUK") and £4.0m which was invested in the working capital of the group, in particular the working capital of Water 2 Business Limited.

CASH FLOW STATEMENT

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit before taxation		15.4	20.9
Adjustments for:			
Depreciation, net of amortisation of deferred income	6	17.6	17.2
Amortisation of intangibles	6	2.4	2.0
Impairment of fixed assets	6	4.7	-
Difference between pension charges and normal contributions	24	0.4	0.5
Loss on disposal of assets	6	0.3	0.3
Profit on disposal of assets and liabilities held for sale	6	(2.2)	-
Interest income	7	(4.1)	(4.1)
Interest expense	7	18.6	16.1
Pension interest income	7	(1.3)	(1.6)
(Increase)/decrease in inventory		(0.5)	0.2
(Increase) / decrease in trade and other receivables		(4.7)	0.2
Increase /(decrease) in trade and other creditors and provisions		3.8	(1.7)
Additional contributions to pension scheme	24	-	(0.1)
Cash generated from operations		50.4	49.9
Interest paid		(11.8)	(11.8)
Corporation taxes paid		(2.9)	(1.4)
Net cash inflows from operating activities		35.7	36.7
Cash flows from investing activities			
Purchase of property plant and equipment and intangibles		(55.2)	(35.7)
Contributions received	21	4.2	3.8
Proceeds from sale of fixed assets		0.1	0.1
Proceeds from sale of assets and liabilities held for sale		9.1	-
Interest received	7	4.1	4.1
Net cash used in investing activities		(37.7)	(27.7)
Cash flows from financing activities			
Proceeds from loans and borrowings	27	29.9	-
Transaction costs related to loans and borrowings	27	(0.2)	(0.3)
Payment of finance lease liabilities	27	(0.4)	(0.3)
Payment of loans and borrowings	27	(20.0)	-
Preference dividends paid	7	(1.1)	(1.1)
Equity dividends paid		(7.3)	(9.2)
Net cash generated from / (used) in financing activities		0.9	(10.9)
Net decrease in cash and cash equivalents		(1.1)	(1.9)
Cash and cash equivalents, beginning of year	15	16.1	18.0
Cash and cash equivalents, end of year	15	15.0	16.1

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Bristol Water plc ("the Company") is a regulated Water only supply Company holding an instrument of appointment as set out by the Water Industry Act 1991. The Company is the licensed monopoly provider of water services in the Bristol area, and as such is regulated by the Water Services Regulation Authority - Ofwat.

The Company is incorporated and domiciled in England. The address of its registered office is Bridgwater Road, Bristol, BS13 7AT, England.

2 Basis of preparation

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

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

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

- Requirements of IFRS 13 'fair value measurement (disclosure of fair value techniques and inputs)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment'
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38B-D (additional comparative information)
  - 134-136 (capital management disclosures)
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

3 Summary of significant accounting policies

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

3.1 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Company's forecasts and projections show that the Company will be able to operate within the level of its current cash reserves and borrowing facilities. After making enquiries, the directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Company's borrowings is given in note 3.14 and note 18

3.2 Revenue

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

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

Revenue from unmetered water supply is based on either the rateable value of the property or on an assessed volume of water supplied. Cash received from customer is held in trade and other payables and recognised to the income statement over the period to which the bill relates.

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

3.3 Property, plant and equipment and depreciation

Tangible assets are stated at historic purchase cost less accumulated depreciation and comprise infrastructure assets and other assets. The cost of assets includes their purchase cost together with incidental expenses of acquisition and any directly attributable labour costs and salaries which are capitalised. Repairs and maintenance of assets is capital expenditure when it is probable future economic benefits will flow to the company and the cost of the item can be measured reliably.

Capitalisation of borrowing costs

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

Depreciation

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

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

Infrastructure assets	23 to 213 years
Operational properties and structures	3 to 100 years
Plant and equipment comprising:	
Treatment, pumping and general plant	2 to 30 years
Computer hardware, communications, meters and telemetry equipment	4 to 15 years
Vehicles and mobile plant	4 to 15 years
Assets under construction are not depreciated.	

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

Impairment

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

3 Summary of significant accounting policies (continued)
3.3 Property, plant and equipment and depreciation (continued)

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

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

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

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

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

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

3.5 Non-current assets held for sale
Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carry amount and fair value less costs to sell.

3.6 Grants and contributions (deferred income)
Grants and contributions received in respect of network and other assets are recognised in line with the provisions of International Financial Reporting Interpretations Committee ("IFRIC") 18: Transfer of Assets from Customers.

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

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

3.7 Pension costs

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

Defined benefit scheme

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. Scheme running costs are charged to operating profit.

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

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

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

Defined contribution schemes

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

3.8 Research and development

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

3.9 Distributions to shareholders

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

3.10 Leased assets

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

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

3.11 Taxation

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.11 Taxation (continued)

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

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

3.12 Cash and cash equivalents

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

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

3.13 Inventory

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

3.14 Financial instruments

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

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

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

Hedge accounting

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

Derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

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

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

3.15 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. Provisions are not discounted as the effect of the time value of money is not considered material.

3 Summary of significant accounting policies (continued)

3.16 Trade and other receivables

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

3.17 Trade and other payables

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

4 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

Revenue Recognition

An estimate of water consumption by metered customers since the date of the last bill and the corresponding income that remains not billed (accrued income) is required to be made each year. The accrual is based on metered volumes, consumption already billed and tariffs. The accrued income is £12.7m (2016/17 £12.6m). £10.8m (2016/17 £8.5m) is included in note 14 prepayments and accrued income, £nil (2016/17 £4.1m) is included in note 16, assets and liabilities classified as held for sale and £1.9m (2016/17 £nil) relates to Water 2 Business Limited, a related party company and is included within amounts owed by group and associated companies in note 14

Classification of costs between operating expenditure and capital expenditure

Expenditure on assets can be for repairs, maintenance or enhancement, and judgement is required to determine whether it should be classified as operating expenditure or capital expenditure.

The Company incurs a high level of infrastructure maintenance expenditure. Each infrastructure scheme is reviewed to determine the accounting treatment as either capital or operating expenditure, depending on the nature of the scheme. Consideration is given to a range of factors, including the degree of upgrade which results from the maintenance project, the frequency of the maintenance relative to the overall life of the underlying asset, whether the maintenance is likely to result in increased useful life or enhanced working standard or capacity of the asset, and if the maintenance is expected to result in a separate component of infrastructure asset. The results are assessed against the requirements of accounting standards.

Payroll costs are allocated to cost centres that reflect the nature of activity being undertaken. A judgement is applied, based on the activity for each cost centre, of an appropriate proportion to capitalise. This is a formal procedure under which figures are reviewed and assessed to ensure they meet the required criteria (directly attributable to an asset, probable future economic benefit and can be measured reliably). See note 6(a) for capitalised payroll costs

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property plant and equipment and note 3.3 for the useful economic lives for each class of assets.

Useful economic lives of intangible assets

The annual amortisation for computer software is sensitive to changes in the estimated useful economic lives of the assets. These are amended when necessary to reflect current estimates, based on technological advancement, future investments and economic utilisation. See note 11 for the carrying amount of the intangible assets and note 3.4 for the useful economic lives of the assets.

Impairment of trade receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the aging profile of the receivables and historical experience. See note 14 for the net carrying amount of the receivables and associated impairment provision.

4 Critical accounting estimates and judgments (continued)

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

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

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

Fair value of derivatives
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses the services of third party experts to provide the valuation. See note 19 for details of the Company's interest rate swaps.

5. REVENUE

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

6. OPERATING COSTS

(a) Operating costs includes –

	2018 £m	2017 £m
Inventory recognised as an expense	**2.4**	2.3
Wages and salaries, including restructuring costs and other termination benefits	**18.5**	16.3
Social security costs	**1.9**	1.8
Defined contribution scheme costs (note 24)	**1.9**	1.7
Defined benefit scheme costs (note 24)	**0.4**	0.5
Total payroll cost	**22.7**	20.3
Less capitalised as tangible and intangible assets	**(6.9)**	(5.4)
Net staff cost	**15.8**	14.9
Depreciation of tangible assets (note 10)		
On owned assets	**19.0**	18.6
On leased assets	**0.3**	0.3
Amortisation of intangible assets (note 11)		
On owned assets	**2.4**	2.0
Amortisation of related deferred income (note 21)	**(1.7)**	(1.7)
Other operating charges		
Research and development expenditure	**-**	0.1
Auditors' remuneration	**0.1**	0.1
Impairment of trade receivables (note 14)	**2.9**	2.9
Loss on disposal of tangible assets	**0.3**	0.3
Other charges less recoveries	**42.3**	39.9
Total operating costs before exceptional items	**83.8**	79.7
Impairment of fixed assets	**4.7**	-
Profit on disposal of assets and liabilities held for sale	**(2.2)**	-
Total exceptional items in the income statement	**2.5**	-
Total net operating costs	**86.3**	79.7

The impairment of fixed assets arose following the board of Bristol Water plc's decision not to continue with the construction of the Cheddar 2 Reservoir (note 10).

The profit on disposal of assets and liabilities held for sale arose following the sale of the non-household activities to Water 2 Business Limited. The sale completed in April 2017.

(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:

	2018 No.	2017 No.
Water treatment and distribution	**248**	228
Support services	**126**	112
Administration	**98**	87
Non-appointed activities	**12**	12
	484	439

6. OPERATING COSTS (continued)

(c) Directors' emoluments -

	2018 £m	2017 £m
Aggregate emoluments of directors, being remuneration, bonus, pension, LTIP and benefits in kind	**0.8**	0.8
Compensation for loss of office	**-**	0.1
	0.8	0.9

The highest paid director during the year was Mr Karam; full details of his, and all other directors' emoluments, are disclosed in the Remuneration Committee Report on pages 95 to 108.

(d) Independent auditors' remuneration

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

	2018 £'000	2017 £'000
Fees payable for the audit of the Company's annual statutory financial statement	**58.0**	64.3
Fees payable for other services:		
the review of the Company's interim financial statements	**-**	8.3
services pursuant to legislation, principally assurance and audit of regulatory accounts and returns	**47.5**	42.0
Assurance over PR 19 process	**80.6**	30.0
'PwC Inform' subscription	**1.1**	1.1
Total non-audit fees	**129.2**	81.4

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £m	2017 £m
Interest payable and similar charges relate to:		
Bank borrowings	**2.1**	2.4
Term loans and debentures:		
interest charges	**9.5**	9.3
indexation	**6.6**	3.6
Finance leases	**-**	0.1
Capitalisation of borrowing cost	**(0.7)**	(0.4)
Dividends on 8.75% irredeemable cumulative preference shares	**1.1**	1.1
	18.6	16.1
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 24)	**(1.3)**	(1.6)
Loan to Bristol Water Holdings UK Ltd – interest receivable	**(4.0)**	(4.0)
Other external investments and deposits income	**(0.1)**	(0.1)
	(5.4)	(5.7)
Total net interest payable and similar charges	**13.2**	10.4

The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.3% (2017: 5.4%), which is the weighted average interest rate of applicable borrowings.

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

8. TAXATION

	2018 £m	2017 £m
Tax expense included in Income Statement		
Current tax:		
Corporation tax on profits for the year	**2.7**	3.3
Adjustment to prior periods	**0.1**	0.2
Total current tax	**2.8**	3.5
Deferred tax:		
Origination and reversal of timing differences	**0.9**	0.9
Adjustment to prior periods	**(0.1)**	(0.2)
Effect of change in rate	**-**	(3.3)
Total deferred tax (note 23)	**0.8**	(2.6)
Tax expense on profit	**3.6**	0.9
Tax expense income included in other comprehensive income		
Current tax:		
Prior period adjustment on defined benefit plan	**-**	0.1
Deferred tax:		
Remeasurement of swap liability	**0.3**	-
Remeasurement of post employment benefit liability	**0.6**	0.2
Total tax expense included in other comprehensive income	**0.9**	0.3

8. TAXATION (continued)

Reconciliation of the tax on profit on ordinary activities

The current tax rate for the year is higher (2016/17: lower) than the standard rate of tax. A reconciliation between tax expense and the product of accounting profit multiplied by United Kingdom domestic tax rate is as follows:

	2018	2017
	£m	£m
Profit before tax	**15.4**	20.9
At statutory income tax rate of 19% (2017: 20%)	**2.9**	4.2
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	**0.2**	0.2
Pension adjustment	**(0.2)**	(0.2)
Impairment of reservoir	**1.0**	-
Other	**(0.2)**	0.2
	3.7	4.4
Effective income tax rate before rate change	**24.0%**	21.1%
Effect of tax rate change on opening balances	**-**	(3.3)
Effect of tax rate change on current year movement	**(0.1)**	(0.2)
Total taxation expense included in income statement	**3.6**	0.9

The current tax charge is higher than the standard corporation tax rate due to the impairment of Cheddar 2 Reservoir during the year.

9. EARNINGS PER ORDINARY SHARE

	2018	2017
	m	m
Basic earnings per ordinary share have been calculated as follows -		
Earnings attributable to ordinary shares	**£11.8**	£20.0
Weighted average number of ordinary shares	**6.0**	6.0

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

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infra-structure assets £m	Assets under construction £m	Total £m
At 1 April 2016					
Cost	317.2	34.7	409.5	16.9	778.3
Accumulated depreciation	(126.9)	(22.4)	(72.4)	-	(221.7)
Net book amount	190.3	12.3	337.1	16.9	556.6
Year ended 31 March 2017					
Opening net book amount	190.3	12.3	337.1	16.9	556.6
Additions	-	-	-	36.4	36.4
Disposals	(0.4)	-	-	-	(0.4)
Capitalisation of completed assets	11.2	3.1	13.3	(27.6)	-
Depreciation charge (note 6)	(10.2)	(3.5)	(5.2)	-	(18.9)
Transferred to assets classified as held for sale	(0.2)	(0.1)	-	-	(0.3)
Closing net book amount	190.7	11.8	345.2	25.7	573.4
At 31 March 2017					
Cost	323.3	36.6	422.7	25.7	808.3
Accumulated depreciation	(132.6)	(24.8)	(77.5)	-	(234.9)
Net book amount	**190.7**	**11.8**	**345.2**	**25.7**	**573.4**
Year ended 31 March 2018					
Opening net book amount	**190.7**	**11.8**	**345.2**	**25.7**	**573.4**
Additions	-	-	-	50.5	50.5
Disposals	(0.2)	-	(0.3)	-	(0.5)
Capitalisation of completed assets	35.4	3.4	18.8	(57.6)	-
Depreciation charge (note 6)	(10.4)	(3.5)	(5.4)	-	(19.3)
Impairment	-	-	-	(4.7)	(4.7)
Closing net book amount	215.5	11.7	358.3	13.9	599.4
At 31 March 2018					
Cost	358.3	37.0	441.2	18.6	855.1
Accumulated depreciation	(142.8)	(25.3)	(82.9)	(4.7)	(255.7)
Net book amount	**215.5**	**11.7**	**358.3**	**13.9**	**599.4**

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £3.0m (2017: £3.9m).

The impairment of fixed assets arose following the board of Bristol Water plc's decision not to continue with the construction of the Cheddar 2 Reservoir.

The net book value of property, plant and equipment includes £5.5m (2017: £4.9m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2018 £1.3m (2017: £0.4m) was capitalised using a weighted average interest rate of 5.3% (2017: 5.4%). This is the weighted average interest of applicable borrowings.

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

Included above at 31 March 2018 is freehold land, not subjected to depreciation in the year, of £1.7m (2016/17: £1.7m). Property, plant and equipment transferred to non-current assets held for sale in 2016/17 amounted to £0.3m and is disclosed in note 16.

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Included above at 31 March 2018 are tangible assets held under finance leases analysed by asset type as follows:

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infrastructure assets £m	Total £m
At 31 March 2018				
Cost	**10.0**	**0.8**	**1.2**	**12.0**
Accumulated depreciation	**(8.9)**	**(0.8)**	**(1.0)**	**(10.7)**
Net book value	**1.1**	**-**	**0.2**	**1.3**
At 31 March 2017				
Cost (restated)	10.0	0.8	1.2	12.0
Accumulated depreciation (restated)	(8.6)	(0.8)	(1.0)	(10.4)
Net book value	1.4	-	0.2	1.6

11. INTANGIBLE ASSETS

	Computer Software £m	Assets under construction £m	Total £m
At 1 April 2016			
Cost	24.2	0.5	24.7
Accumulated amortisation	(19.7)	-	(19.7)
Net book amount	4.5	0.5	5.0
Year ended 31 March 2017			
Opening net book amount	4.5	0.5	5.0
Additions	-	2.4	2.4
Disposals	-	-	-
Capitalisation of completed assets	2.6	(2.6)	-
Amortisation charge (note 6)	(2.0)	-	(2.0)
Transferred to assets classified as held for sale	(0.3)	-	(0.3)
Closing net book amount	4.8	0.3	5.1
At 31 March 2017			
Cost	25.7	0.3	26.0
Accumulated amortisation	(20.9)	-	(20.9)
Net book amount	4.8	0.3	5.1
Year ended 31 March 2018			
Opening net book amount	4.8	0.3	5.1
Additions	-	5.9	5.9
Disposals	-	-	-
Capitalisation of completed assets	5.3	(5.3)	-
Amortisation charge (note 6)	(2.4)	-	(2.4)
Closing net book amount	7.7	0.9	8.6
At 31 March 2018			
Cost	30.1	0.9	31.0
Accumulated amortisation	(22.4)	-	(22.4)
Net book amount	7.7	0.9	8.6

11. INTANGIBLE ASSETS (continued)

Included within disposals are assets with a nil net book value at time of disposal. The original costs of these assets were £0.9m (2017: £0.8m).

Intangible assets transferred to non-current assets held for sale in 2016/17 amounted to £0.3m and is disclosed in note 16.

Included above at 31 March 2018 are intangible assets held under finance leases analysed by asset type as follows:

	Computer software £m	Total £m
At 31 March 2018		
Cost	**1.3**	**1.3**
Accumulated depreciation	**(1.3)**	**(1.3)**
Net book value	**-**	**-**
At 31 March 2017		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-

12. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	£m
Balance at 31 March 2018 and 31 March 2017	**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.

13. INVENTORY

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

14. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2018 £m	2017 £m
Trade receivables (a)	**24.9**	24.6
Less bad debt provision (a)	**(14.6)**	(14.1)
	10.3	10.5
Amounts owed by group undertakings (b)	**3.2**	0.9
Other receivables	**1.6**	1.4
Prepayments and accrued income	**11.9**	9.5
Corporation tax recoverable	**-**	-
Interest rate swap derivative	**0.1**	-
	27.1	22.3

(a) The aging of net trade receivables was:

	2018 £m	2017 £m
Past due by 0-30 days	**1.4**	1.6
Past due by 31-120 days	**1.1**	1.1
Past due by more than 120 days	**7.8**	7.8
	10.3	10.5

Bad debt provision:

	2018 £m	2017 £m
Opening balance	**14.1**	16.8
Provision for trade receivables impairment (note 6)	**2.9**	2.9
Trade receivables written off during the year as uncollectible	**(2.4)**	(4.7)
Provision relating to disposal group assets	**-**	(0.9)
Closing balance	**14.6**	14.1

As at 31 March 2018, based on a review of collection rates, £14.6m (2017: £14.1m) of trade receivables were considered impaired and have been provided for.

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

Other receivables at 31 March 2018 and 31 March 2017 have not been impaired.

(b) The sum of £0.4m (2016/17: £0.4m) is included within the heading "Amounts owed by group undertakings" 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.

15. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following:

	2018 £m	2017 £m
Cash and cash equivalents	**8.9**	10.0
Restricted cash	**6.1**	6.1
	15.0	16.1

Restricted cash are funds the Company is required to maintain, under the terms of the STID, in a nominated account to cover estimated debt service payments arising during the following year. These funds are therefore not available for other operational use or distribution to shareholders.

16. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	2018 £m	2017 £m
(a) Non current assets classified as held for sale		
Property plant and equipment	**0.2**	0.2

At 31 March 2018 land and property which is being actively marketed has been classified as held for sale. The sale is expected to complete in July 2018.

(b) Assets of disposal group classified as held for sale	2018 £m	2017 £m
Property plant and equipment	-	0.1
Intangible assets	-	0.3
Trade receivables	-	3.4
Accrued income	-	4.1
	-	7.9

(c) Liabilities of disposal group classified as held for sale	2018 £m	2017 £m
Receipts in advance	-	**1.0**
	-	**1.0**

The prior year disposal group related to the sale of the assets and liabilities relating to non-household activities to Water 2 Business Limited, an associate of Bristol Water Holdings Limited. The sale completed in April 2017.

17. TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade and other payables		
Receipts in advance	**11.9**	11.4
Trade payables	**11.6**	11.6
Amounts owed to group undertakings	**1.7**	1.7
Other taxation and social security	**0.7**	0.6
Corporation tax payable	**1.3**	1.4
Payments received on account	**1.2**	1.2
Accruals	**10.3**	6.7
	38.7	34.6

All amounts owed to associates are unsecured, interest free and repayable on demand.

18. BORROWINGS AND DERIVATIVES

	2018	2017
	£m	£m
Amounts falling due within one year		
Bank and other term loans – secured	-	20.0
Finance leases – secured (note 26)	0.5	0.5
Interest rate swaps	-	0.3
	0.5	20.8
Amounts falling due after more than one year		
Bank and other term loans – secured	79.9	50.0
Finance leases – secured (note 26)	1.0	1.5
Net unamortised premiums arising on issue of term loans	0.2	0.2
Interest rate swaps	0.4	1.2
Forward interest rate swaps *	(0.1)	0.3
	81.4	53.2
Amounts falling due after more than five years		
Bank and other term loans – secured	240.7	234.2
Net unamortised premiums arising on issue of term loans	1.7	1.9
	242.4	236.1
Irredeemable		
Debentures	1.6	1.6
8.75% irredeemable cumulative preference shares (note 25)	12.5	12.5
	14.1	14.1
Total	**338.4**	324.2

None of the bank and other term loans included within creditors are payable in instalments.
* The current year asset is included within note 14, trade and other receivables.

Security for borrowings

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

In respect of the Company

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

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

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

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

18. BORROWINGS AND DERIVATIVES (continued)

	Interest rate %	Maturity	Total 2018 £m	Total 2017 £m
Current loans and borrowings				
£10,000,000 bank loan	-	7 Dec 2017	-	10.0
£10,000,000 bank loan	-	7 Dec 2017	-	10.0
Interest rate swap for £10,000,000 bank loan	-	7 Dec 2017	-	0.3
Finance leases	3.73%	10 May 2020	**0.5**	0.5
Total current loans and borrowings			**0.5**	20.8
Non current loans and borrowings				
£50,000,000 bank loan	2.41%	29 Nov 2019	**50.0**	50.0
Interest rate swap for £50,000,000 bank loan	1.50%	29 Nov 2019	**0.4**	1.2
£13,000,000 bank loan	1.21%	31 Dec 2019	**13.0**	-
£9,900,000 bank loan	0.91%	2 Dec 2020	**9.9**	-
£7,000,000	1.21%	2 Dec 2022	**7.0**	-
Forward interest rate swap*	0.93%	24 Mar 2020	**(0.1)**	0.3
Finance leases	3.97%	10 May 2020	**1.0**	1.5
£127,835,000 term loan	3.64%	30 Sept 2032	**134.9**	130.2
£57,500,000 term loan	6.01%	30 Sept 2033	**57.5**	57.5
£45,302,000 term loan	2.70%	25 Mar 2041	**48.3**	46.5
Net unamortised premiums			**1.9**	2.1
£1,405,218 Consolidated debentures	4.00%	irredeemable	**1.4**	1.4
£36,740 perpetual debentures	4.25%	irredeemable	-	-
£54,875 perpetual debentures	4.00%	irredeemable	**0.1**	0.1
£72,900 perpetual debentures	3.50%	irredeemable	**0.1**	0.1
£12,500,000 cumulative preference shares	8.75%	irredeemable	**12.5**	12.5
Total non- current loans and borrowings			**337.9**	303.4

Borrowing facilities

Unutilised borrowing facilities are as follows:	2018 £m	2017 £m
Expiring in December 2019	**7.0**	20.0
Expiring in December 2020	**5.1**	15.0
Expiring in December 2022	**28.0**	35.0
Expiring in December 2022	**25.0**	-
	65.1	70.0

The facilities are floating rate and incur non-utilisation fees at market rates.
* The current year asset is included within note 14, trade and other receivables

19. FINANCIAL INSTRUMENTS

Fair value estimation

The fair values of the cash deposits, trade receivables, trade creditors, loans and overdrafts with a maturity of less than one year are assessed to approximate to their book values.

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

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

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

19. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

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 2018, the Company was party to an interest rate swap with a notional value of £50m. This swap was effective from 3 December 2014 and will expire on 29 November 2019. The fair value of the interest rate swap has been calculated by discounting the expected future cash flows by reference to the implied future 3 months LIBOR, and hence the swap is valued as a Level 2 instrument as set out by IFRS 13 'Fair value measurement'.

The Company is also a party to a forward starting interest rate swap to hedge expected future borrowings. The effective date of the swap is 24 April 2018 and the swap will expire on 24 March 2020. The initial notional value of the swap is £25m, increasing in stages to a final notional value of £67.5m. The fair value of the forward starting swap has been calculated by discounting the expected future cash flows by reference to the implied future one month LIBOR. The forward starting swap has been valued as a Level 2 instrument accordingly.

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the net liability arising under the swap agreements was recognised in these financial statements, as follows:

	2018	2017
	£m	£m
Liability:		
Due under one year	**-**	0.3
Due after one year	**0.4**	1.5
	0.4	1.8
Asset:		
Due under one year	**-**	-
Due after one year	**(0.1)**	-
	(0.1)	-
Net liability:		
Due under one year	**-**	0.3
Due after one year	**0.3**	1.5
	0.3	1.8

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' the Company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

Fair values of financial assets and financial liabilities

Although the Company does not intend to trade in any financial instruments, the following tables provide a comparison, by category, of the carrying amounts and the fair value of the Company's financial assets and financial liabilities. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at the Company's current incremental borrowing rates for borrowings of similar types and maturities.

19. FINANCIAL INSTRUMENTS (continued)

Fair values of non-current financial assets and liabilities

	31 March 2018		31 March 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Primary financial instruments issued to finance the Company				
Long-term borrowings	**(325.1)**	**(445.9)**	(289.4)	(438.2)
8.75% irredeemable cumulative preference shares	**(12.5)**	**(19.4)**	(12.5)	(20.4)
Primary financial instruments issued to finance Bristol Water Holdings UK Limited				
Long-term loans	**68.5**	**90.3**	68.5	94.9
Derivative financial instruments held to manage the interest rate profile:				
Net interest rate swaps	**(0.3)**	**(0.3)**	(1.5)	(1.5)
	(269.4)	**(375.3)**	(234.9)	(365.2)

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 2018		31 March 2017	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Cash and cash equivalents	**15.0**	**15.0**	16.1	16.1
Trade and other receivables	**27.1**	**27.1**	22.3	22.3
Financial liabilities				
Current portion of long-term borrowings	**(0.5)**	**(0.5)**	(20.8)	(20.8)
Trade and other payables	**(38.7)**	**(38.7)**	(34.6)	(34.6)
	2.9	**2.9**	(17.0)	(17.0)

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's main financial instruments comprise:

- borrowings and cash;
- 8.75% irredeemable cumulative preference shares;
- various items, such as trade receivables and trade payables, 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.

20. FINANCIAL RISK MANAGEMENT (Continued)

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 (2016/17: £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 rate or a fixed margin above movements in RPI basis. At the year-end 34%* (2016/17: 39%*) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 90% (2016/17: 96%) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed or index-linked rates. The residues were at floating rates.

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

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

* Variable interest rate loans totalling £50m, covered by interest rate swaps, have been considered as fixed interest rate loans for the calculation of this percentage.

Interest rate sensitivity

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Company's profits.

The sensitivity analysis includes the effect on all financial instruments exposed to changes in interest rate.

	31 March 2018		31 March 2017	
	Profit before tax £m	**Profit after tax £m**	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	**0.3**	**0.2**	0.1	0.1

Inflation rate sensitivity

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

	2018 £m	2017 £m
Index-linked debt	**183.2**	176.7

20. FINANCIAL RISK MANAGEMENT (continued)

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

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 2018		31 March 2017	
	Profit before tax £m	**Equity £m**	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	**1.8**	**1.5**	1.8	1.5

(c) Credit risk

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

Under the terms of the STID, cash at bank and cash deposits are placed with banks with a minimum of Moody's P-1 and Standard & Poors A-1 credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2018 £m	2017 £m
Long-term loans	**68.5**	68.5
Cash and cash equivalents	**15.0**	16.1
Trade and other receivables, net of bad debt provisions made	**27.0**	22.3
	110.5	106.9

There is no collateral held as security in respect of the above financial assets.

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 76% (2016/17: 77%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

The Company has undrawn facilities of £7m expiring in December 2019, £5.1m expiring in December 2020, £28m expiring in December 2022 and £25m expiring in December 2022. All 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 £6.1m (2016/17: £6.1m), 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. At 31 March 2018 we have assumed that indexation will be applied at the rate of 3.4% p.a. At 31 March 2017 we assumed that indexation will be applied at the rate of 3.9% p.a. These were the prevailing rates for inflation on indexed linked loans at these dates and have been applied for each year until maturity.

20. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Year ended 31 March 2018	**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	**11.6**	-	-	-	**11.6**
Due to group and associated companies	**1.7**	-	-	-	**1.7**
Other taxation and social security	**0.7**	-	-	-	**0.7**
Corporation tax payable	**1.3**	-	-	-	**1.3**
Accruals	**1.8**	-	-	-	**1.8**
Interest bearing loans and related interest	**11.6**	**74.4**	**49.0**	**521.4**	**656.4**
	28.7	**74.4**	**49.0**	**521.4**	**673.5**

Year ended 31 March 2017	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	11.6	-	-	-	11.6
Due to group and associated companies	1.7	-	-	-	1.7
Other taxation and social security	0.6	-	-	-	0.6
Corporation tax payable	1.4	-	-	-	1.4
Accruals	1.4	-	-	-	1.4
Interest bearing loans and related interest	31.5	11.4	82.4	559.9	685.2
	48.2	11.4	82.4	559.9	701.9

Derivative financial instruments and hedge accounting
The Company has entered into an interest rate swap with a notional value of £50m. This was effective from 3 December 2014. The Company has entered into a forward starting swap to hedge expected future borrowings up to a notional value of £67.5m. The effective date of the forward starting swap is 24 April 2018. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, and accordingly hedge accounting is applied as mentioned in note 3.14.

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.

20. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Year ended 31 March 2018	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Interest rate swaps					
Forecast receipts	0.5	0.4	-	-	0.9
Contractual payments	(0.7)	(0.5)	-	-	(1.2)
Net forecast cash outflow	(0.2)	(0.1)	-	-	(0.3)
Forward interest rate swaps					
Forecast receipts	0.2	0.7	-	-	0.9
Contractual payments	(0.2)	(0.6)	-	-	(0.8)
Net forecast cash inflow	-	0.1	-	-	0.1
Total net forecast cash outflow	(0.2)	-	-	-	(0.2)

Year ended 31 March 2017	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Interest rate swaps					
Forecast receipts	0.2	0.3	0.3	-	0.8
Contractual payments	(1.0)	(0.8)	(0.5)	-	(2.3)
Net forecast cash outflow	(0.8)	(0.5)	(0.2)	-	(1.5)
Forward interest rate swaps					
Forecast receipts	-	0.1	0.4	-	0.5
Contractual payments	-	(0.2)	(0.5)	-	(0.7)
Net forecast cash outflow	-	(0.1)	(0.1)	-	(0.2)
Total net forecast cash outflow	(0.8)	(0.6)	(0.3)	-	(1.7)

(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.

21. DEFERRED INCOME

	2018 £m	2017 £m
Net book value, beginning of year	**73.8**	71.7
Additions	**4.2**	3.8
Amortisation charge for the year (note 6)	**(1.7)**	(1.7)
Net book value, end of year	**76.3**	73.8

	2018 £m	2017 £m
Current	**1.7**	1.7
Non-current	**74.6**	72.1
	76.3	73.8

22. PROVISIONS FOR LIABILITIES

Reconciliation of staff redundancies:	2018 £m	2017 £m
Opening balance	-	0.2
Arising during in the year	-	0.1
Utilised	-	(0.3)
Closing balance	-	-

23. DEFERRED TAXATION

	2018 £m	2017 £m
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	**62.2**	61.4
Deferred income	**(4.7)**	(4.6)
Short-term timing differences	-	(0.1)
Interest rate swaps	**(0.1)**	(0.4)
Net deferred tax liability	**57.4**	56.3

Reflected in the statement of financial position as follows:

	2018 £m	2017 £m
Deferred taxation asset	**(4.8)**	(5.1)
Deferred taxation liability	**62.2**	61.4
Deferred tax liabilities net	**57.4**	56.3

23. DEFERRED TAXATION (continued)

Deferred tax liabilities	**Accelerated capital allowances** £m	**Total** £m
At 1 April 2016	64.1	64.1
Credited to the income statement	(2.7)	(2.7)
At 31 March 2017	61.4	61.4
Charged to the income statement	0.8	0.8
At 31 March 2018	**62.2**	**62.2**

Deferred tax assets	**Deferred income** £m	**Fair value gains** £m	**Other** £m	**Total** £m
At 1 April 2016	(4.8)	(0.4)	-	(5.2)
Charged / (credited) to the income statement	0.2	-	(0.1)	0.1
At 31 March 2017	(4.6)	(0.4)	(0.1)	(5.1)
(Credited) / charged to the income statement	(0.1)	-	0.1	-
Charged to OCI	-	0.3	-	0.3
At 31 March 2018	**(4.7)**	**(0.1)**	-	**(4.8)**

The Accelerated capital allowance pool relates to the difference in capital allowances that are allowed under corporate tax law compared with the accounting depreciation. The above shows that the assets have received higher tax relief through capital allowances than the associated depreciation.

Deferred income relates to the write off of contributions in relation to capital assets which for tax are written off in line with the capital allowance rates and not the accounting lives.

Fair value gains relates to the movement in the interest rate SWAP during the year.

24. RETIREMENT BENEFIT SURPLUS

Defined benefit scheme

Pension arrangements for employees are partly provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section stopped earning additional defined benefit pensions on 31 March 2016. All eligible employees were offered membership of a stakeholder pension scheme.

In addition to providing benefits to employees and ex-employees of the Company, the section provides benefits to former employees of the Company who transferred to BWBSL. The majority of the section assets and liabilities relate to the Company employees and ex-employees.

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

The details of the last triennial valuation and current update on the funding position are provided on page 37 in the Strategic Report.

From 1st April 2016, there were no employer contributions to the scheme. On 30th June 2016, with the agreement of the trustees, deficit contributions, previously of £0.4m per annum, also ceased.

The risks of the scheme are as follows:

24. RETIREMENT BENEFIT SURPLUS (continued)

(a) Asset volatility
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of LDI funds which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short term.

(b) Changes in bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

(c) Life expectancy
The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk
The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that the effect on assets of an increase in inflation will also reduce the surplus.

(e) Income tax rate risk
The value of the pension scheme surplus has been restricted by an income tax deduction of 35% under UK tax legislation. An increase in the income tax rate will reduce the net pension scheme surplus.

Basis of valuation
The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2017 was updated to 31 March 2018, by Lane Clark & Peacock LLP, using the following major assumptions in accordance with IAS 19 (Employee Benefits):

	2018	2017
Assumptions:		
RPI Inflation	**3.4%**	3.4%
CPI Inflation	**2.4%**	2.4%
Pension increases in payment (uncapped CPI)	**2.5%**	2.5%
Pension increases in payment (CPI capped at 5% pa)	**2.4%**	2.4%
Discount rate	**2.5%**	2.5%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into the following average life expectancies in years:

	2018	2017
Life expectancy at age 60 at the balance sheet date		
- Men	**28.0**	28.8
- Women	**30.0**	30.7
Life expectancy at age 60, 25 years from balance sheet date		
- Men	**30.8**	32.3
- Women	**32.3**	33.6

24. RETIREMENT BENEFIT SURPLUS (continued)

Reconciliation of scheme assets and liabilities:

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2016	209.2	(160.2)	**49.0**
Section expenses	(0.4)	-	**(0.4)**
Interest income (note 7)	6.8	(5.2)	**1.6**
Past service cost (note 6)	-	(0.1)	**(0.1)**
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	26.5	-	**26.5**
Changes in financial assumptions	-	(28.9)	**(28.9)**
Changes in demographic assumptions	-	-	**-**
Experience adjustments on obligation	-	1.8	**1.8**
	26.5	(27.1)	**(0.6)**
Benefits paid	(8.3)	8.3	**-**
Employer contributions	0.1	-	**0.1**
Pension scheme surplus at 31 March 2017	**233.9**	**(184.3)**	**49.6**
Pension scheme surplus at 1 April 2017	233.9	(184.3)	**49.6**
Section expenses	(0.4)	-	**(0.4)**
Interest income (note 7)	5.7	(4.4)	**1.3**
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(5.1)	-	**(5.1)**
Changes in financial assumptions	-	-	**-**
Changes in demographic assumptions	-	6.5	**6.5**
Experience adjustments on obligation	-	(0.5)	**(0.5)**
	(5.1)	6.0	**0.9**
Benefits paid	(11.1)	11.1	**-**
Pension scheme surplus at 31 March 2018	**223.0**	**(171.6)**	**51.4**

The past service cost shown above consists of an increase in the pension scheme obligations due to a discretionary pension increase to scheme members.

Total amount recognised on the statement of financial position:	**2018 £m**	2017 £m
Fair value of plan assets	223.0	233.9
Pension scheme obligation	(171.6)	(184.3)
Pension scheme surplus	51.4	49.6
Less: restriction of surplus	(17.9)	(17.3)
Net pension scheme surplus	33.5	32.3

In accordance with IAS19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Company believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised.

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been shown above as a restriction to the value of the net pension scheme asset that can be recognised for this scheme.

24. RETIREMENT BENEFIT SURPLUS (continued)

Sensitivity
The sensitivity of the pension scheme surplus at 31 March 2018

	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.5%	11.9	(13.4)
Inflation assumption (CPI)	0.5%	(10.9)	9.5
Life expectancy	1 year	(7.3)	7.3

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Total cost recognised as an expense:

	2018	2017
	£m	£m
Past service cost (note 6)	**-**	0.1
Interest income (note 7)	**(1.3)**	(1.6)
Section expenses	**0.4**	0.4
	(0.9)	(1.1)

The market value of the plan assets was:

	2018 Quoted	**2018 Unquoted**	**2018 £m**	**%**	2017 Quoted	2017 Unquoted	2017 £m	%
Equities	**3.5**	**-**	**3.5**	**1.5**	3.3	-	3.3	1.4
Diversified growth funds	**6.6**	**-**	**6.6**	**3.0**	6.6	-	6.6	2.8
LDI funds	**153.0**	**13.3**	**166.3**	**74.6**	142.0	25.1	167.1	71.4
Liquidity funds	**32.8**	**3.2**	**36.0**	**16.1**	39.4	8.7	48.1	20.6
Emerging markets multi-asset funds	**4.7**	**0.1**	**4.8**	**2.2**	3.8	0.2	4.0	1.7
High yield bonds	**4.2**	**-**	**4.2**	**1.9**	4.1	-	4.1	1.8
Cash	**-**	**1.6**	**1.6**	**0.7**	-	0.7	0.7	0.3
	204.8	**18.2**	**223.0**	**100**	199.2	34.7	233.9	100

The return on the plan assets was:	**2018**	2017
	£m	£m
Interest income	**5.7**	6.8
Remeasurements	**(5.1)**	26.5
Total return on plan assets	**0.6**	33.3

The current weighted average duration of the expected benefit payments from the Section is around 16 years.

Defined contribution scheme
The Company operates defined contribution retirement benefit schemes for employees. Following the closure of the defined benefit scheme all affected employees have been offered membership of this scheme. The total cost charged to income of £1.9m (2016/17: £1.7m) represents contributions payable to the scheme. As at 31 March 2018 and 31 March 2017, all contributions due have been paid over to the scheme.

The amount recognised as an expense for the defined contribution scheme was:

	2018	2017
	£m	£m
Current period contributions	**1.9**	1.7

25. SHARE CAPITAL

Ordinary shares of £1 each

Issued and fully paid	**2018 No.**	**2018 £m**
Opening balance	**5,998,025**	**6.0**
Issued during the year	**-**	**-**
Closing balance	**5,998,025**	**6.0**

All shares rank pari passu in all respects.

Preference shares of £1 each

Issued and fully paid	**2018 No.**	**2018 £m**
Opening balance	**12,500,000**	**12.5**
Issued during the year	**-**	**-**
Closing balance	**12,500,000**	**12.5**

The preference shares are classified as liabilities in the balance sheet.

The 8.75% irredeemable cumulative preference shares, which do not normally carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each.

26. COMMITMENTS

Capital commitments at 31 March 2018 contracted for but not provided were £5.8m (2016/17: £5.5m).

Minimum lease payments under finance leases

The future minimum finance lease payments are as follows:

	2018 £m	2017 £m
Within one year	**0.5**	0.5
Between one and five years	**1.0**	1.5
Total gross payments	**1.5**	2.0
Impact of finance charges	**-**	-
Carrying value of liability	**1.5**	2.0

The above payments relate to the lease of plant and equipment which ends in May 2020. There is no option to purchase at the end of the lease.

27. CASHFLOW INFORMATION

(a) Net debt reconciliation

Analysis of net debt:

	31 March 2018 £m	31 March 2017 £m
Cash and cash equivalents	**15.0**	16.1
Borrowings – repayable within one year (including overdraft)	**(0.5)**	(20.8)
Borrowings – repayable after one year	**(337.9)**	(303.4)
Net debt	**(323.4)**	(308.1)
Cash and liquid investments	**15.0**	16.1
Gross debt – fixed and indexed interest rates	**(123.5)**	(133.7)
Gross debt – variable interest rates	**(214.9)**	(190.5)
Net debt	**(323.4)**	(308.1)

Movements in net debt

	Other assets	Liabilities from financing activities				
	Cash / bank overdraft	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
	£m	£m	£m	£m	£m	£m
Net debt as at 31 March 2017	16.1	(0.5)	(1.5)	(20.3)	(301.9)	(308.1)
Cash flows	(1.1)	0.4	-	20.0	(29.7)	(10.4)
Other non-cash movements	-	(0.4)	0.5	0.3	(5.3)	(4.9)
Net debt as at 31 March 2018	**15.0**	**(0.5)**	**(1.0)**	**-**	**(336.9)**	**(323.4)**

28. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company for this entity is Bristol Water Core Holdings Limited, a company incorporated in England and Wales.

As at 31 March 2018, the directors considered the ultimate parent and controlling party of the Company to be iCON Infrastructure Partners III, L.P. acting through its Managing General Partner, iCON Infrastructure Management III Limited.

The smallest and largest group in which the Company is consolidated is Bristol Water Group Limited (formerly known as CSE Water UK Limited) and copies of its consolidated annual report are available from Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB.

29. RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Group Limited (formerly known as CSE Water UK Limited) group of companies, members of the iCON Infrastructure companies and members of Itochu Corporation, and key management personnel.

The principal related parties are:

Bristol Water Group Limited (formerly known as CSE Water UK Limited), registered in England and Wales, whose year-end is 31 March, and is the Company's ultimate UK holding company.

Bristol Water Holdings UK Limited ("BWHUK"), registered in England and Wales, whose year-end is 31 March.

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.

Water 2 Business Limited ("W2B"), registered in England and Wales, whose year-end is 30 June. The interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group which owns 30 class 'B' shares in the company representing a holding of 30% of equity rights and 40% of voting rights of the company. W2B is a joint operation undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and has a retail water and sewerage supply licence. In the year to March 2018 it provided meter reading, billing, debt recovery and customer contact management services.

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**	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Members of the Bristol Water Group Limited group				
BWH UK management charges	-	0.1	-	-
Joint ventures and associates of the Bristol Water Group Limited group				
BWBSL				
- management charges	-	-	**2.7**	2.5
- capital expenditure	-	-	**0.1**	0.1
- other recharges	-	-	**0.3**	0.3
W2B				
- non household supply of water	**21.5**	-	-	-
- management charges	-	-	-	0.7
	21.5	0.1	**3.1**	3.6

29. RELATED PARTY TRANSACTIONS (continued)

At the year end the balances held with related parties were:

	Amounts due from		Amounts due to	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Joint ventures and associates of the Bristol Water Group Limited group				
BWBSL	**0.7**	0.5	**1.3**	0.5
W2B	**2.1**	-	**-**	0.7
	2.8	0.5	**1.3**	1.2

The amounts outstanding are unsecured and will be settled in cash. As a retailer in the non-household market, W2B supplies collateral under the market codes, 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 95 to 108.

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 7 June 2018, the Trustee of the Bristol Water Section of the Water Companies Pension Scheme purchased a bulk annuity policy to insure the benefits for members in the Section. Following this the method for valuing the liabilities of the pension scheme will remain the same however the scheme assets, in the form of the insurance policy, will match the value of the liabilities. Based on actuarial assumptions at the date of signing, the gross surplus is estimated to be £11.6m and the net surplus, after deduction of income tax at 35%, is estimated to be £7.5m.

After the year end the Company entered into the following new credit facilities:

Date	Amount	Expiry
25 May 2018	£25m	24 August 2028
14 June 2018	£50m	14 June 2028
21 June 2018	£50m	21 June 2023

Independent auditors' report to the members of Bristol Water plc

Report on the audit of the financial statements

Opinion

In our opinion, Bristol Water plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 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 (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2018; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview

- Overall materiality: £750,000 (2017: £1,045,000), based on 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 accounts receivable.
- Classification of expenditure on infrastructure assets.
- Valuation of the pension scheme.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Provision for impairment of domestic accounts receivable The recoverability of customer debts is always a key issue for water companies. Even though the cash collection rates have shown clear indications of improvement in recent years, the recoverability is very sensitive to changes in economic circumstances.	We evaluated the model used to calculate the provision and confirmed its consistency with prior years. 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.
Classification of expenditure on infrastructure assets Expenditure on infrastructure assets is either capitalised as an addition to tangible assets or written off to the income statement, depending on the nature of the work done. Given the size and complexity of the capital programme and how it relates to the company's assessed performance for regulatory purposes, the classification of expenditure requires management judgement.	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. This sample also included capitalised labour costs to ensure that they have been classified appropriately.
Valuation of the pension scheme 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.	We formed an independent expectation of the key pension valuation assumptions, including the discount rate, inflation rate and life expectancy, compared them with those adopted by the company and found them to be in line with our expectations. In respect of the data provided to the actuary by the company and used in the valuation, we agreed the

Key audit matter	How our audit addressed the key audit matter
	contributions paid by the company to bank statements. We obtained third party confirmations of the valuation of the pension assets. 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.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.

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 on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate 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	£750,000 (2017: £1,045,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £75,000 (2017: £104,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 72-108) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. *(CA06)*

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. *(CA06)*

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 38 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 38 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 112, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on page 89 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 113, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 12 November 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2013 to 31 March 2018.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 109 in relation to going concern as if the company were a premium listed company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

The directors have requested that we perform a review of the directors' statements on pages 38 and 41 that they have carried out a robust assessment of the principal risks facing the group and in relation to the longer-term viability of the company, as if the company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors 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.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
13 July 2018

Glossary of Acronyms

AAP	Affordability Action Plan
AMP	Asset Management Plan
ARAC	Audit and Risk Assurance Committee
BI	Biodiversity Index
BWBSL	Bristol Wessex Billing Services Limited
CCWater	Consumer Council for Water
CCL	Climate Change levy
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMEX	Customer Measure of Experience
CRI	Compliance Risk Index
DWI	Drinking Water Inspectorate
DWSP	Drinking Water Safety Plan
EA	Environment Agency
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
EMT	Executive Management Team
HSE	Health and Safety Executive
KPI	Key Performance Indicator
MZC	Mean Zonal Compliance
NEP	National Environment Programme
NWQC	National Water Quality Coalition
ODI	Outcome Delivery Incentive
PAYE	Pay As You Earn
PR19	Price Review 2019
RAD	Recorded Announcement Device
RCV	Regulatory Capital Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
RORE	Return on Regulatory Equity
SIM	Service Incentive Measure
SOSI	Security of Supply Index
SRS	Southern Resilience Scheme
SWTF	Severe Weather Task Force
TCV	The Conservation Volunteers
UKCSI	The UK Customer Satisfaction Index
WCPS	Water Companies' Pension Scheme
WOC	Water Only Company
WRMP	Water Resources Management Plan
W2B	Water 2 Business