BRISTOL WATER plc

ANNUAL REPORT 2014

Registered number - 2662226

CONTENTS

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

CHAIRMAN'S STATEMENT

Bristol Water ("the Company") has continued to deliver solid operational performance, excellent customer satisfaction and stable financial results during a year that included an extensive capital programme and a succession of extreme weather events.

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

Water resources

We coped well with a number of extreme weather events throughout the year which impacted on our operational performance. Water resources have remained reasonably stable with a dry summer and extreme rainfall during the winter months, ensuring our reservoirs were full. The winter of 2013/14 was one of the wettest on record resulting in several large pipe bursts. Extensive flooding in the south of our supply area brought additional challenges when dealing with mains renovation/replacement projects and we have applied alternative methods of working to maintain continuity of supplies. Using our intelligent resources and systems, our leak detection and repair teams worked tirelessly to make sure that customers were kept supplied and leaks were repaired in the minimum time.

Capital investment

We are now at the end of the fourth year in the current regulatory period 2010-2015 and are continuing to make good progress in the delivery of the outputs required by Ofwat's determination. Our extensive capital programme has continued across our supply area with an investment of £76m this year. This on-going level of capital investment clearly demonstrates our commitment to invest in our assets which will ensure continued excellent service to our customers. We are on target to complete projects within the current regulatory period with the majority of planned key schemes finished or nearing completion.

A large number of our projects have impacted on customers and commuters and we have worked extremely hard to mitigate any disruption by utilising non-disruptive engineering techniques wherever possible. We have engaged with communities affected by our works programmes with the majority of customers recognising the need for the renovation or replacement of water mains. They have appreciated the effort our customer and engineering teams provide prior to our works commencing, during and after they have been completed.

Customer service achievements

Our customer service performance remains good with customer surveys consistently showing high levels of satisfaction. Over the past year we have invested in a mobile customer service and exhibition unit which has allowed us to work more closely with communities and provide more face-to-face information about our mains improvement works, water efficiency and metering. We also appointed a Community Liaison Officer who will lead our engagement with customers, local groups and other stakeholders.

CHAIRMAN'S STATEMENT (continued)

Customer service achievements (continued)

Ofwat uses the Service Incentive Mechanism ("SIM") benchmark to measure customer service across the industry. Our SIM score in 2013/14 has very slightly lowered on the previous year due to the amount of major engineering works being carried out across our supply area. Information on our ranking with other water and sewerage companies in the UK for 2013/14 will be available later in July. In 2012/13 we were placed 3rd out of 21 water and sewerage companies which put us in the upper quartile.

We continue to put customers at the heart of our strategy and operations and have implemented new feedback channels for customers and stakeholders through additional research surveys. These new initiatives will help us obtain customers' views on what we do, how we perform and where we need to improve.

We have one of the lowest levels of water leakage in the country and again we have significantly beaten our regulatory leakage targets by continuing with our proactive approach to driving down leakage using a range of techniques and resources. We will continue to invest in leak detection so that our distribution system is able to deliver adequate quantities of high quality water.

The quality of drinking water we supply is already very high with 99.97% of legally required samples meeting UK and European Community standards. We continue to work with landholders and farmers as part of our catchment management programme to minimise the impact of metaldehyde used on adjacent land to our reservoirs which could affect the quality of water that we treat before we deliver it to our customers.

Building for the future

Our vision is to meet customer expectations by providing an outstanding water service in a sustainable and affordable way. During the year we submitted our Business Plan as part of the regulatory Price Review ("PR14") process for 2015-20, in which we set out the steps we believe are required to meet our vision.

As part of the development process of our Business Plan, extensive independent research was undertaken involving around 3,000 household customers and 400 business customers. A number of research stages were developed to collate customer views, identify their priorities, test their preferences and gauge their acceptance of our proposals.

This process was monitored by a Local Engagement Forum ("LEF"), comprising local and national representatives from key organisations. The LEF scrutinised and challenged the customer consultation process and with a 92% household customer acceptability of our final Business Plan, endorsed its submission to Ofwat in December 2013.

In March 2014, Ofwat announced that two out of 18 water companies had prequalified for 'enhanced' status. As required by Ofwat, we submitted our revised Business Plan in June 2014. Ofwat is scheduled to publish its draft determination in August 2014 followed by the final determination by December 2014.

CHAIRMAN'S STATEMENT (continued)

Building for the future (continued)

In order to help meet the expected future demand for water in our supply area, driven by expected population and housing growth, our proposal to build a second reservoir in Cheddar has now been approved by the local District Council. If we receive approval from Ofwat to invest in the building of this reservoir it would be the first of its kind built in this country for more than three decades and would be fully operational by 2025, filled by surplus water flows in Cheddar Gorge. We believe the design of this second reservoir in Cheddar offers the most cost effective solution and satisfies environmental and ecological considerations. Apart from providing vitally needed water supplies it would also offer major recreational and conservation benefits.

Subsequent to the financial year-end, DEFRA have approved our Statement of Response submitted to the Environment Agency of our draft 25 years Water Resources Management Plan ("WRMP"). This plan is produced every five years and sets out how we intend to meet customers' water needs over the next 25 years.

Our joint venture company with Wessex Water, Water2business, applied for a water supply licence in March of this year. This joint venture partnership will allow us to operate in the non-household water and sewerage market following the Government's plans to introduce retail competition in this sector from 2017 and as a result of the Water Act 2014.

Financial performance

The stable financial performance that I reported in September 2013 continues. Turnover increased by £9.7m to £123.9 and profit before tax decreased by £0.9m to £14.5m. These results reflect the net impact of the 6.9% increase in prices allowed by Ofwat - required for the on-going capital investment programme, an increase in demand from metered customers, higher operating costs, and higher depreciation charge for infrastructure assets during the year. Increase in operating costs is predominantly driven by inflationary and above inflation price increases, increase in costs associated with the improvement of customer service, increase in network maintenance costs, and worsening of collections from our customers. Increase in operating costs is partially offset by savings from our efficiency programme, Avon+. A comprehensive analysis of our financial results can be found in the Strategic Report on page 28.

The current financial period is the fourth year of the current 5-year regulatory period to March 2015, and we remain completely focused on meeting customers' expectations as well as delivering the outputs specified in the last Price Review.

Our business efficiency initiative programme has progressed as planned with the successful introduction of a new Customer Relationship Management ("CRM") system together with a comprehensive procurement system which ensures that the most cost effective purchasing decisions are made. With the most extensive capital investment programme being undertaken in our history, it has been essential for us to closely monitor expenditure. The implementation of a new project management system has enabled us to scrutinise expenditure more accurately and identify improvements in the way we work.

CHAIRMAN'S STATEMENT (continued)

Being a responsible business

Good corporate governance is key to the Company's business and underpins the relationships with our customers, stakeholders and shareholders. We are committed to operating effectively and efficiently and providing excellent customer service. Our governance arrangements are continually reviewed as required by our regulator, Ofwat, and the UK Code of Corporate Governance. A report covering our approach to corporate governance is included in this Annual Report and illustrates our approach to clear accountability when conducting our business.

From an environmental perspective, we continue to meet all our targets ensuring that all our reservoirs remain at the highest assessment levels for Sites of Special Scientific Interest. Our successful Trout & About schools programme has entered its second year and has won an international award for education and corporate social responsibility. As part of our joint project with Bristol Zoo and Avon Wildlife Trust we have established further secret 'ark sites' for white-clawed crayfish which should protect the existence of these species. We have also developed another innovative project with the Environment Agency to assist the transfer of critically endangered eels into Blagdon Lake.

Our involvement in a number of community initiatives and programmes has enabled us to distribute over 32,000 free water saving items at public events across our region, equating to just under half a million litres of water each day being saved. 48 schools have also participated in our Eco School Challenge this year, resulting in an estimated 35 megalitres of water being saved through the fitting of water saving devices in schoolchildren's homes.

Health and safety of our employees, contractors and the communities we serve is championed at Board of Directors ("the Board") level and we want to make Bristol Water a 'great place to work'. Our focus is on reducing health and safety risk to an absolute minimum and our Health and Safety Action Group deliver effective information promotions to instil this clear and important message.

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

I would like to thank all of our staff for their hard work and dedication over the past year. They have demonstrated total commitment in ensuring that we remain an excellently performing company delivering high quality customer service to our customers.

Keith Ludeman
Chairman
14 July 2014

STRATEGIC REPORT

The directors present their Strategic Report on the Company for the year ended 31 March 2014.

OUR BUSINESS

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

We supply water to a population of approximately 1.2 million people across an area of almost 2,400 square kilometres (km) centred on Bristol, stretching from Tetbury in the north to Street in the south and from Weston-Super-Mare in the west to Frome in the east.

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

During the year we supplied an average of 264 million litres of water per day (Ml/d) from our network of 140 treated water storage reservoirs, 16 water treatment works, 173 pumping stations and approximately 6,770 km of mains.

Approximately 74% of the water we supply is delivered to our domestic customers and 45% of these are metered.

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

Throughout our history we have focused on the needs of our customers, acutely aware of how important a reliable water supply is to everyday life. We understand the importance of making the right decisions to provide an affordable, high quality service into the future. Through a programme of capital investment in the maintenance and growth of the network and by applying improvements to the business performance, we can deliver our vision to meet customers' expectations by providing an outstanding water service in a sustainable and affordable way.

Our business model and strategy

We are committed to fulfil the growing water demand through an extensive capital investment programme which will improve our networks and service. We will deliver this through our business model which has helped generate significant efficiencies across the current 2010-15 period so that the Company meets, or outperforms its regulatory commitments. Our business model focuses on operations, asset management, engineering development and customer support to deliver our capital investment programmes.

We deliver services in a responsible way and our strategy and business model are underpinned by strong leadership and robust processes across the Company.

STRATEGIC REPORT (continued)

OUR BUSINESS (continued)

Our business model and strategy (continued)

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

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

We expect to provide sustainable real growth in the dividend whilst retaining a robust capital structure.

Regulatory framework

The regulatory framework for monopoly water companies in England and Wales is well established and highly transparent and has been in place for 25 years. Ofwat implements economic regulation through a price cap mechanism, whereby the tariffs charged for the majority of services are limited to increases in inflation plus or minus a ‘K’ factor. Allowed tariffs are set in real terms to reflect efficient operating costs and permit water companies to earn a fair return on Regulatory Capital Value (“RCV”). Tariffs are adjusted annually for inflation as measured by the UK Retail Price Index (“RPI”).

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

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

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

Other regulatory bodies include:

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

STRATEGIC REPORT (continued)

OUR BUSINESS (continued)

Next Price Review process (2015-20)

Pursuant to Government plans to introduce retail competition for non-household customers from 2017, Ofwat will set separate price controls for retail and wholesale services. The wholesale price control will cover the technical services that companies provide – such as collecting and treating water and transporting it through a network of pipes to a customer's property. The retail price control will cover customer-related services, such as sending customers' bills and responding to their enquiries. Non-household customers will be subject to separate retail price control.

In December 2013 we submitted our Business Plan for the next period ("AMP6") to Ofwat, as part of the PR14 process. Our Business Plan received support from the LEF, Regulators DWI and EA, and customer representatives. The LEF met regularly to review each stage of our Business Plan process, particularly so that our customer preferences were addressed, and to provide valuable input into our thinking.

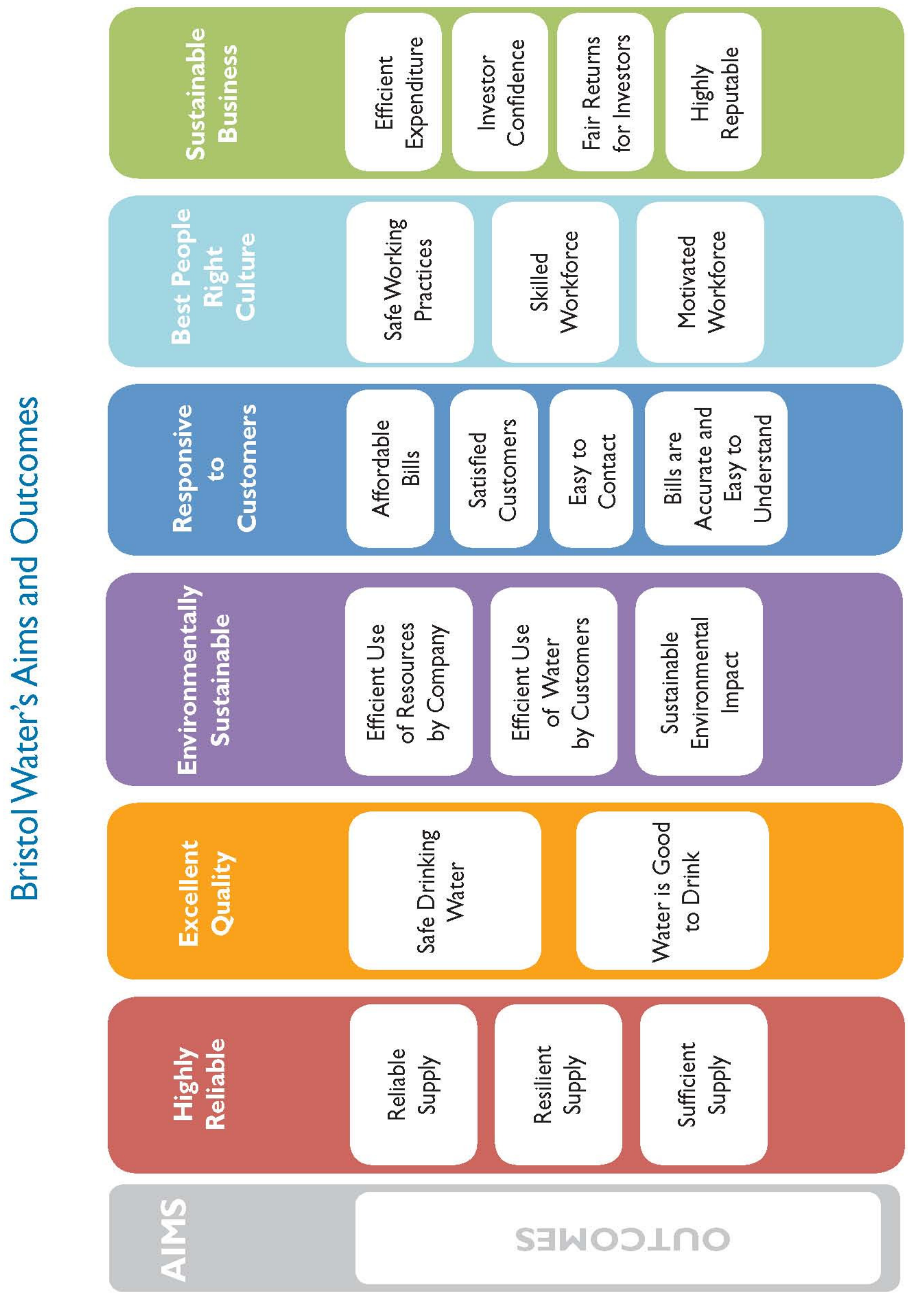
Subsequent to our submission, Ofwat issued further guidance and published the results of its risk-based review. We put every effort to understand and assess the additional guidance and comments from the Regulator and accordingly submitted a revised Business Plan in June 2014. Ofwat is scheduled to publish its draft determination in August 2014 followed by the final determination by December 2014.

STRATEGIC REPORT (continued)

OUR BUSINESS (continued)

Long-term Strategy

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



STRATEGIC REPORT (continued)

OUR BUSINESS (continued)

Long-term Strategy (continued)

Subsequent to the financial year-end, DEFRA have approved our Statement of Response submitted to the EA of our draft 25 years WRMP. Our WRMP, produced every five years, will now be published and sets out how we intend to meet customers' water needs over the next 25 years.

Over the next 25 years, the population in our area is expected to grow to 1.4 million - 18% higher than current levels which is the same high rate as the south east of England according to the Office of National Statistics. This population growth will have a significant effect on demand for water. Further, when assessing future water resource requirements, we have to consider both the possible effects of climate change and the need to protect the environment, for example maintaining water levels in rivers and other watercourses.

We are committed to fulfil our customers' growing water demand. Our Business Plan addresses the risk of water shortages in the medium term so that we can mitigate the impact that scarce resources and increased demand for water may have in the future. Our WRMP considers the longer term impact of a growing population and a greater demand for water - the construction of Cheddar Reservoir Two is a key part of our long-term strategy to meet increased demand over the next 25 years.

Current projections suggest that in an extreme weather situation, we could experience a deficit of water from 2020 onwards, and by 2030 we will need to find an extra 40 million litres of water a day to maintain current levels of service to this larger population.

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

Also, a key initiative to meet this target will be to reduce leakage even further despite us already having one of the lowest levels of leakage in the UK. By 2020, we aim to reduce leakage to 16% of water produced (compared to over 20% in 2009/10).

Beyond 2019/20, our preference is to set a long-term target of leakage reduction so that only 10% of the volume of water put into the distribution system is lost through leakage. We will achieve this by continued metering and further active leakage control using the latest technologies. We will also help our customers save water by providing water saving fittings, advice to reduce water consumption, and carrying out water efficiency audits for business customers.

Retail competition

Water2business, our joint venture company with Wessex Water, applied for a water supply licence in March of this year. This will allow us to operate in the non-household water and sewerage market following the Government's plans to introduce retail competition in this sector from 2017 as a result of the new Water Act 2014.

STRATEGIC REPORT (continued)

CURRENT PERFORMANCE

The Company's performance is assessed through a number of performance measures/KPIs, which are aligned with the Aims and Outcomes in our strategy document 'Water in the Future':

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

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

STRATEGIC REPORT (continued)

OPERATIONAL KPIs

Aim	Outcome	Performance Measure/KPI	Units	Annual Target	2013/14	2012/13
Highly reliable	Reliable supply	Unplanned customer minutes lost	Minutes	19.2	13.95	9.2
		Asset reliability (below ground assets)	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
		Asset reliability (above ground assets)	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
	Resilient supply	Population at risk from asset failure due to an extreme event	Population	311,629	311,629	394,000
	Sufficient supply	Security of supply index	No.	100	100	100
		Hosepipe ban frequency	Return period (1 in 'X' years)	15	15	15
Excellent quality	Safe drinking water	DWI standards[1]	%	99.96	99.97	99.99
	Water is good to drink	Negative water quality contacts[2]	No.	2,500	2,561	2,317
Environmentally sustainable	Efficient use of resources by the Company	Leakage	Ml/day	49	44	42
		Pumping efficiency	%	55	55	52
	Efficient use of water by customers	Per capita consumption	litre/head/day	146	144	141.1
		Meter penetration (household)[3]	%	45	42	40
	Sustainable environmental impact	Total carbon emissions	Tonnes CO_2	45,000	41,995	41,950
			Kg/person	Being developed	36.20	36.45
		Raw water quality of sources	Improving/ Stable/ Marginal/ Deteriorating	Not set[4]	Deteriorating	Deteriorating
		Biodiversity Index	Improving/ Stable/ Marginal/ Deteriorating[5]	Not assessed	Not assessed	Not assessed
		Waste disposal compliance	%	97	99	98.6
Responsive to customers	Affordable Bills	Percentage customers in water poverty	%	2.1	2.1	2.1
	Satisfied customers	Ofwat measurement of customer service (SIM)	Score/100	86	85	86
		General satisfaction survey[6]	%	Greater than 93	93	93
		Value for money rating[7]	%	70.3	70.0	70.3

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Aim	Outcome	Performance Measure/KPI	Units	Annual Target	2013/14	2012/13
	Easy to contact	Ease of contact from surveys[7]	%	Above 96.5	96.2	96.5
	Bills are accurate and easy to understand	Negative billing contacts[8]	No.	2,840	2,686	2,840
Best people right culture	Safe working practices	No. of accidents reportable to Health and Safety Executive ("HSE") [1, 9]	No.	Nil	4	5
	Skilled and motivated workforce	Training matrix compliance[10]	%	Additional measure	N/A	N/A
		Staff satisfaction survey	% of respondents who like their job	Survey biannual	No survey	91%
Sustainable business	Investor confidence	Credit rating	Moody's rating	Baa1	Baa1	Baa1
	Fair return to investors	Post tax return on capital	%	4.9	3.9	4.9
	Highly reputable	Customer survey[11]	%	83	83	83
		Stakeholder survey[12]	%	New	53	N/A

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

2 These numbers are calculated using the method used in our AMP5 Business Plan. The numbers in our AMP6 Business Plan follow the revised calculation method as suggested by DWI.

3 During the year, the meter penetration performance measure has been redefined as household properties only.

4 This is a new measure developed for monitoring our performance in AMP6; we have begun collecting performance data but have not set a target for 2013/14.

5 Biodiversity Index is a new approach on protecting the environment. A method to quantify the impact of our actions on the environment is currently being developed. This will help us deliver greater environmental benefit through our future engineering projects and targeted environmental programmes.

6 Based upon the results of our annual survey of 1,000 household customers selected at random from the total customer base.

7 Based upon the results of our monthly SIM surveys of a sample of customers who have contacted us in the period.

8 Based upon a subset of the unwanted billing contacts reported for SIM purposes by our billing company BWBSL.

9 A reportable HSE accident indicates staff have taken more than seven days sickness absence or sustained a broken bone due to a work related injury. As a reference, three year rolling average = 4.

10 This is a new key performance measure introduced after 31 March 2014.

11 Based upon the results of our annual survey of 1,000 household customers selected at random from the total customer base and asked to rate the Company's reputation.

12 Based upon the results of our new stakeholder survey introduced in 2013, reflecting the views of around 50 stakeholders selected at random and asked to rate the Company in terms of its overall CSR performance.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Highly reliable

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

Reliable supply

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

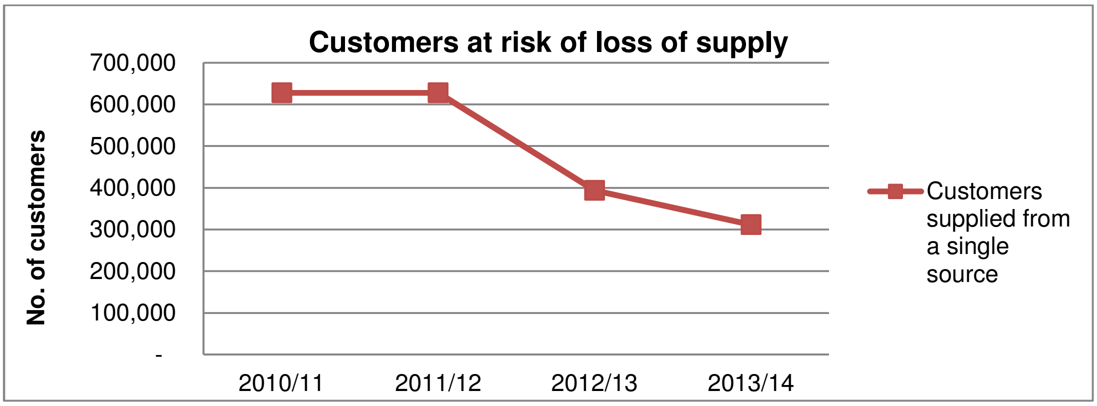
For the financial year 2013/14, our customers experienced an average of 13.95 unplanned customer minutes lost per property, which, whilst still better than our rolling 5 year performance, is worse than the excellent performance of 9.2 minutes in 2012/13. This worsening has predominantly been due to the unintended consequences of a planned interruption involving a bypass for the Sherston/Shipton Moyne rehabilitation work. Without this interruption, our 2013/14 unplanned customer minutes lost performance would have been 10.5 minutes, consistent with the low levels of the previous two years.

Our target to maintain ‘stable’ serviceability in managing our assets effectively was achieved for both above and below ground asset groups, such that our customers continue to receive the standard of service they expect.

Resilient supply

Having a resilient supply means that we are able to cope with extreme, out of the ordinary events, including the impact of climate change which can affect our resources, water demand leakage levels, and malicious or accidental damage to our assets. We measure this outcome through assessment of the population at risk from the failure of a single source asset.

At the beginning of the financial year we estimated that, by the end of the AMP5 period, there will be 311,629 consumers in supply areas of more than 25,000 consumers supplied by a single source at risk of losing their supply if extreme circumstances caused it to fail. By the end of the financial year we estimate that this number will be 288,589. The reduction of 23,040 consumers, served by the Oldford treatment works, is expected to be achieved by combining the South East Trunk Mains scheme with the AMP5 Egford nitrates blending scheme, and by extending some of the reservoir bypass facilities.



STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Sufficient supply

Having a sufficient supply means that customers can continue to use the water supply without restrictions. Our customer priorities research, carried out as part of our Business Plan process, shows that having sufficient water to meet demand is our customers' top concern along with water quality. We measure performance against this outcome through the use of supply restrictions that we may have to introduce in times of water shortage, and Ofwat's measure of the security of supply.

Security of Supply Index ("SOSI") is the Ofwat measure of companies' compliance with their duty to maintain the security of water supplies. In 2013/14 our SOSI was maintained at 100, the maximum level.

The Company did not have to impose a hose pipe ban or other supply restrictions in 2013/14. The last time we did so was in 1990/91.

Excellent quality

Providing excellent quality water is fundamental to our business, our customers' top concern (along with sufficient supply) and the water we supply meets the most rigorous quality standards in the world.

Safe drinking water

As noted above, our customers' top priority is for their water to be clear and clean. With the sophisticated treatment processes in place we aim to satisfy their expectations and this is evidenced by our water quality results, published by the DWI annually.

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

During 2013 around 89,000 compliance tests were carried out on samples taken from both customers' properties and our own treatment works, with an additional 340,000 tests carried out to monitor quality within the Network and to optimise treatment processes. The water quality results go to all personnel involved with water production and also to the DWI, who monitor the quality of the Company's drinking water.

We are pleased to report that our water quality performance in 2013 was excellent – 99.97% of the legally required samples met the UK and European Community standards - and were above the industry average. Only 22 of approximately 89,000 compliance tests carried out in the period were not within the expected limits.

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

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

DWI water quality results for the Company

	2009	2010	2011	2012	2013
Overall drinking water quality*	99.97%	99.96%	99.96%	99.99%	99.97%

*Overall drinking water quality as represented by average annual compliance within supply areas based on 39 measures.

Cryptosporidium is a genus of protozoa, some species of which are capable of causing infection in humans. Cryptosporidium oocysts have been detected in both surface and ground waters used for producing drinking water and high numbers tend to be associated with heavy rainfall. They are extremely hardy but are inactivated by UV light. At 31 March 2014 we have installed UV at five of our treatment works where there are occasional detections of oocysts in the raw water. Subsequent to the year-end UV has been operational at one further site. With the installation of UV at these sites, our reliance on chlorine to disinfect the water is reduced. We still have to maintain a chlorine residual in the supply as it enters the distribution system to keep the bacteriological quality up to customer's taps. UV technology has helped us to minimise the concentration of chlorination by-products in the water supply network.

Water is good to drink

Whilst we comply with water quality regulatory standards, it is important that we supply water that customers consider is good to drink. Customer satisfaction is extremely important and we measure our performance by the number of negative customer contacts about the quality of water we receive. In 2013, we received 2,561 such contacts compared with 2,317 in the previous year. 71% of these contacts were due to the appearance of the tap water and the rest due to taste issues. The increase in negative water quality customer contacts has been mainly due to the impact of our increased renovations and rehabilitation work which sometimes results in discoloured water for a short period of time. To reduce the number of negative water quality contacts we receive; we now write to customers who may be affected by our works providing them with advance notice of the work together with information on why their water may be cloudy immediately following the work. We also undertake regular maintenance or flushing of our network.to improve water quality and this year we flushed 854km of pipes, benefiting more than 97,600 properties.

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

Environmentally sustainable

We aim to deliver for the environment as well as for our customers and other stakeholders. This leads us to make efficient use of the Company's resources and assist customers in becoming water efficient, as well as minimising the environmental impact of our business operations.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Efficient use of resources by the Company

Leakage

For this AMP period, leakage targets have been set by Ofwat at a level where the overall value of the water lost is balanced against the costs of increased leakage control activity. 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 third year running, we have beaten our increasingly stringent regulatory leakage targets by a significant margin. Our continued outperformance is driven by our strong commitment to drive leakage down using our experienced repair and detection teams, our investment programme to maintain the integrity of our network and another relatively mild winter period.

	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Leakage - million litres of water per day (Ml/d)	54	53	50	43	42	44
Ofwat target	54	54	52	51	50	49

Pumping Efficiency

During AMP6 we intend to improve our assessment of pumping plant efficiency by detailed measurements on all pump units with greater than 40kW demand (covering 85% of the total power used by the Company). We are now reviewing performance data to build up a database of pump efficiency and focus our investment programme to replace the worst performing units. The estimated average pump efficiency for 2013/14 was 55%, an improvement on the 2012/13 level of 52%. We are continually improving our pumping efficiency and are on track to deliver improved results during the next AMP.

Efficient use of water by customers

We encourage our customers to be more efficient in the way they use water. We measure our performance through the average consumption of our customers, and the percentage of household customers that are billed based on their metered usage.

In AMP6 we will measure our performance in this area by the average consumption by our customers per day, known as per capita consumption (“PCC”). Our overall PCC for 2013/14 was 144 litres per person per day. This is 8 litres below the target figure of 152 litres per person per day used in our PR09 Business Plan.

Overall household meter penetration for 2013/14 is 42%, up from 40% in 2012/13. We have installed almost 2,500 more optant meters than forecast for 2013/14, but continue to see a lower than expected number of properties eligible for metering on the change of occupier metering programme. To accelerate the rate of selective meter installations and reduce the current shortfall with plan, we recruited three additional meter surveyors in 2013 and a further two at the start of 2014.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Sustainable environmental impact

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

- **Total carbon emissions** – Our carbon footprint is effectively the same as last year's figure, thanks to the efforts we have made on water efficiency and renewable energy.

    - **Energy Efficiency** – As part of our new energy efficiency programme we have improved our management of water sources and pumping (our main consumption of energy) with further improvements in energy-intensive sites over the coming two years. Although this work is ongoing, due to hot weather during summer we needed to make greater use of water from sources that require a higher amount of energy to treat and supply. As a result our electrical energy consumption in 2013/14 was 79,751 MWh, about 7% higher than last year's figure of 73,881 MWh.

    - **Water Efficiency** – We have achieved a saving of 125,271 kg CO_2 due mainly to our promotional activities to help customers save water which has meant that less water has been treated to put into our supply network over the last year.

    - **Carbon emissions -** We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint. Our carbon footprint in 2013/14 was 41,995 tonnes (2012/13: 41,950 tonnes). In terms of Kg/person in our supply area, this equates to 36.20 in 2013/14 compared to 36.45 in 2012/13.

      Total annual quantity of emissions (in tonnes of CO_2 equivalent) resulting from the combustion of fuel and the operation of any facility (direct scope 1 emissions) was 1,553 tonnes, and from the purchase of electricity, heat, steam or cooling by the Company for its own use (indirect scope 2 emissions), was 35,608 tonnes.

      We use the Standard Water UK calculation methodology to calculate our carbon emissions. This standard metric expresses the annual emissions in relation to a quantifiable factor associated with the Company's activities as kg operational CO_2e Ml supplied. Figures for the current and previous years are:

2010/11	435 kg/Ml
2011/12	422.5 kg/Ml
2012/13	384.3 kg/Ml
2013/14	384.1 kg/Ml

    - **Renewable energy** – We have installed one of the UK's largest solar photovoltaic systems at our treatment works at Purton and in 2013 this produced 281,838 kWh of electricity. With all this energy being used at the site, the carbon saving was over 136,000 kg CO_2.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

- **Raw Water Quality of Sources** – The raw water quality of some of our sources is at risk of deteriorating due to the presence of nutrients, sediment and pesticides. As part of our PR14 submission, we are proposing to invest in catchment management initiatives during AMP6 period to address this deterioration of our raw water quality sources. These sources are in protected areas designated as drinking water protection areas, and the sources do not currently meet all the requirements of the Water Framework Directive. As a result, they are included in the National Environment Programme for investigation and, in several cases, intervention action to create protection for the sites.

- **Biodiversity index** – The Biodiversity Index is a new approach to protecting the environment. We will measure the value and benefit of our own sites, and then develop a method to quantify the impact and benefit of our actions on the broader environment. This measure will help us deliver greater environmental benefit through our future engineering projects and targeted environmental programmes such as catchment protection.

- **Waste disposal compliance** - This measure is the result of our operational sampling against the Environmental Permitting Regulations 2010. We recycle metal, plastic, wood, paper, batteries and all the other waste expected from a large business, but our most significant source of waste is excavated material from road works. To reduce this waste, most mains replacement projects are now carried out using "no dig" technologies, but there is still a significant amount of waste created by projects that cannot use this technique. We also recycle any polyethylene pipe offcuts generated when we lay new mains. In 2013/14 our network maintenance projects generated 34,800 tonnes of waste, and by close working with our suppliers and local authorities we have been able to send over 87% of this to recycling facilities.

More information on the initiatives during the financial year can be found in the Corporate Responsibility Report on pages 40 to 42.

Responsive to customers

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

Some more initiatives regarding this area are explained in more detail in the Corporate Responsibility Report on pages 39 and 40.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Affordable Bills

We understand that our customers want us to keep bills as low as possible. We also recognise that some of our customers have been finding it difficult to pay their household bills, including their water charges.

In 2013/14 we assessed that 2.1% of our customers were in water poverty. This has not changed from the level assessed in 2012/13. We monitor the percentage of our household customers which we classify as experiencing 'water poverty'. Our criteria for this classification is customers who spend more than 2% of their income (after tax) on paying their water charges.

Advice is offered to customers requiring help in paying their bills, but those requiring additional support are offered assistance schemes and capped tariffs, known as 'Social' tariffs. We currently support more than 6,000 customers through these measures. In 2014/15 we will be focusing our efforts on increasing customers' awareness of our social tariffs and working in partnership with debt advice organisations, charities, housing associations and local councils to support their clients who are struggling to pay their water bills.

Satisfied customers

We assess whether our customers are satisfied using three indicators:

- Ofwat's SIM, measuring the consumer experience;
- Customer satisfaction, measured through our annual tracking survey of household customers;
- Customers' assessment of whether we provide value for money, measured through our monthly consumer experience surveys

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

Our SIM score in 2013/14 was 85.4; our industry ranking will be known later in July. This score compares to 85.6 in 2012/13 and 85.0 in 2011/12. Our previously reported SIM rankings for 2011/12 and 2012/13 were second and fourth respectively. Following Ofwat's reassessment of the industry SIM scores, our 2011/12 and 2012/13 rankings changed to third for both years.

In addition to the consumer experience measures used by Ofwat, we monitored consumer satisfaction on a monthly basis during 2013/14, using research carried out by the same independent consumer research agency as Ofwat uses.

We also used these surveys to obtain a consumer rating of the value for money which we provide. 70% of consumers in these surveys rated our service as providing good value for money.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Satisfied customers (continued)

Through a second independent consumer research agency, we continued our annual tracking survey of 1,000 household customers, selected at random from across our customer database. In our February 2014 survey, 93% of respondents rated our service as excellent or good. This was the same figure as in the 2013 annual survey.

In 2014/15 we are planning to introduce new consumer feedback mechanisms with a view to obtaining greater insight into the views of our customers, enabling us to identify further aspects of our service where we need to improve or deliver enhancements.

Easy to contact

We know that our consumers value being able to contact us without difficulty, and we therefore provide a range of contact channels for them to use.

We also know that in particular they like to speak to us, so our contact centres are based locally, and as we do not use automated systems to categorise or route consumers' calls, there are no menus or options from which consumers must choose before getting through to us.

We measure how consumers rate us in relation to being easy to contact through our monthly research surveys. As telephone is still the primary contact channel used by our consumers, we obtain a rating on how easy it was to contact us by telephone when contacting us.

In 2013/14, 96.2% of consumers taking part in the surveys considered that it was easy to contact us by telephone.

During the year we launched our new website, following detailed research with consumers on the design, content and functionality which they wanted to see. We also implemented a new CRM system to help us manage consumer contacts more efficiently.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Bills are accurate and easy to understand

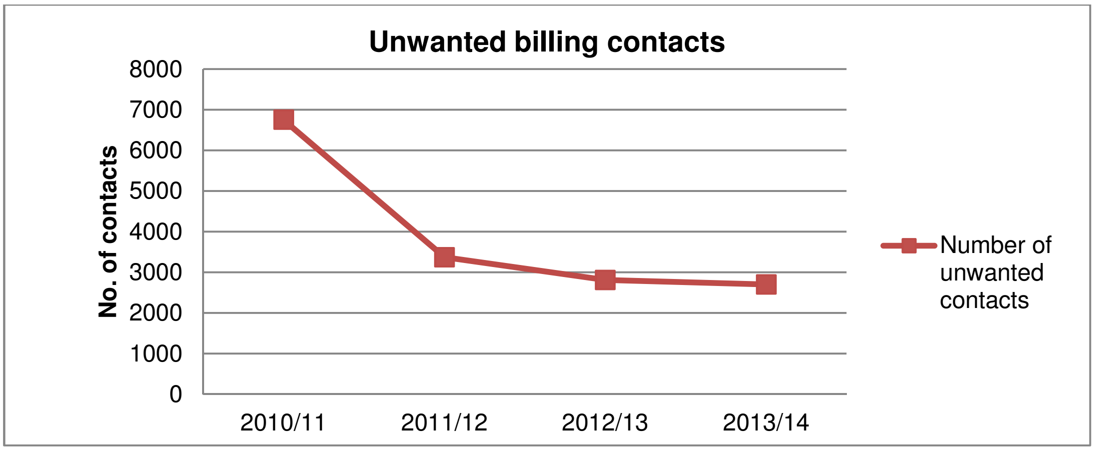
We understand that our customers want bills that are accurate, clearly laid out and easy to understand.

We monitor how well we perform in this respect by measuring the number of 'unwanted' billing contacts we receive related to a specific subset of billing contacts.

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.

In order to make this measure more closely reflect the desired outcome for customers – bills which are accurate and easy to understand – we have refined the calculation methodology from that used in 2012/13, using a subset of total unwanted billing contacts based upon the reason codes used for root-cause analysis by our billing company, BWBSL.

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



In response to requests from our customers, BWBSL is to introduce a new e-billing service in 2014/15, providing facilities for customers to view their bills online and to opt for paper-free billing.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Best people right culture

We know that to continue being a successful water company we need to employ the best people and maintain the right culture within the business. Talented people are the foundation of our success, whatever their style, personality, age, race, religion, gender, sexual orientation or disability. We are committed to diversity and practising equality of opportunity amongst our workforce and our Board of Directors including both executive and non-executive roles. We do all we can to care for our workforce, to motivate them and develop their many and varied skills. Our business operates 24 hours a day every day of the year so there are special welfare needs to consider. We must also ensure all our contractors share our vision.

Bristol Water is an inclusive employer and promotes equality and inclusion from recruitment and selection, through training and development, to promotion, reward, recognition and retirement. Bristol Water values the difference that a diverse workforce brings to the organisation. Currently there is no female representation at the Board level. In our workforce of 554 at 31 March 2014 around 31% were women. Whilst in senior/middle management executive positions the female representation was around 19%.

Safe working practices

We had four HSE reportable accidents during 2013 compared to five accidents in 2012; however none of these were investigated by HSE.

We take health and safety of our employees, contractors and members of the public very seriously and invest in continuous training programmes and safety audits. We undertake an extensive programme of site safety inspections and audits of work undertaken on the public highway. Performance is reviewed by the Operations Executive, reflecting its belief that the health and safety of all coming into contact with our business should be of paramount consideration at the highest level within the Company. Through strong employee engagement we place significant emphasis on improving health and safety performance.

A number of initiatives have been launched throughout the year by the Health and Safety Action Group, made up of a number of representatives across the business, including a well-being week to encourage employees to be healthy and safe in both their workplace and home. Regular health and safety tips are communicated to all members of staff through our internal communications medium.

Our aim to reduce reportable accidents to the Health and Safety Executive to a minimum means we apply a continuous improvement process across the whole Company so there is a total commitment from all employees and contractors to achieving this target.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Skilled and motivated workforce

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

We also run initiatives which we feel maintain employee motivation and engagement; all of them are described in the Corporate Responsibility Report on pages 42 and 43.

Sustainable business

With access to water being a human right, the provision of water services is key to the survival of the human species requiring longevity, consistency and sustainability from providers. Provision of water is a long-term business which we have been doing since 1846. We believe that the sustainability of our business can be assessed by whether we spend customers' and investors' money efficiently. In doing so, we retain the confidence of our investors and maintain returns in line with the expectations of the financial markets. Driving efficiency is an important role for the Company's management and has been delivered through a number of specific projects and cultural changes instigated during the year. This allows us to keep bills in line with the current determination and as low as possible for future years.

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

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

Investor confidence

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

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (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.

Our post tax return on capital for the year was 3.9% (2012/13: 4.9%) compared to 4.9% (2012/13: 4.9%) per our AMP5 Final Determination. The reduction compared to the Final Determination has been driven by above inflation cost increases; particularly in energy, higher Infrastructure Renewals Charge ("IRC") due to changes in our long-term estimate of infrastructure maintenance expenditure, loss recognised on disposal of fixed assets, and costs of work on a regulatory query for developer contributions. Our overall returns during the AMP5 period to date have been slightly better than our AMP5 Final Price Determination.

Highly reputable

We recognise that it is essential for every business to build and maintain a good reputation with its customers and other stakeholders.

For this reason we seek and track the views of our customers and a range of other stakeholders on an annual basis.

Through our annual tracking research, carried out by independent consumer researchers, we obtain the views of 1,000 household customers selected at random from our total customer database each year. Respondents are asked to rate our reputation.

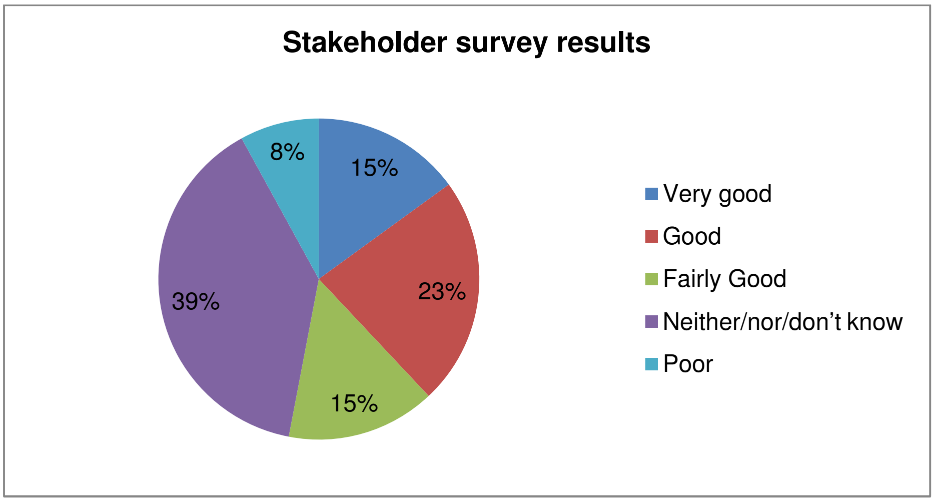
In the annual survey conducted in February 2014, 83% of respondents felt that our reputation was good, the same as the previous year.

STRATEGIC REPORT (continued)

OPERATIONAL KPIs (continued)

Highly reputable (continued)

In order to obtain the views of other stakeholders we initiated a new annual survey in 2013/14, with around 50 stakeholders including MPs, Local Authorities, large business users, regulators and a range of partner organisations selected at random and asked to provide their views on how well we perform in a number of key areas. 77% of respondents rated our service, whether to consumers or to stakeholders, as good and 53% rated us as being a good corporate citizen, an indicator of Corporate Social Responsibility ("CSR") performance.



Following the success of our twice-yearly consumer magazine which we introduced in 2012/13 and deliver free to more than 500,000 households across our region, we will introduce a new stakeholder version in 2014/15. This will focus upon our CSR activities, as well as providing updates on our operational activities and the topical issues affecting our business.

STRATEGIC REPORT (continued)

FINANCIAL KPIs
For the year ended 31 March 2014

	2014	2013
	£m	£m
Turnover	**123.9**	114.2
EBITDA	**66.5**	61.7
Operating profit	**27.9**	26.9
Profit before tax	**14.5**	15.4
Profit after tax	**17.1**	13.1
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	**279.8**	240.4
RCV	**411.3**	389.0
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	**68%**	62%
Capital investment before grants and contributions	**76.0**	88.5

Turnover of £123.9m, reflecting an 8.5% increase, includes the 6.9% price increase allowed by Ofwat in respect of inflation (3%) and the ‘K’ factor (3.9%), and an increase in demand from metered customers. The price increase allowed by Ofwat, is needed because of the investment we are undertaking to improve and protect the water supply. By the end of this AMP period we will have spent around £290m on these improvement works.

Daily average water into supply was 264 Ml/day (2012/13: 257 Ml/day), 2.7% higher than last year reflecting more normal weather compared to the unusually wet weather in FY 2012/13.

EBITDA increased by £4.8m reflecting an increase of £9.7m in turnover as offset by an increase of £4.9m in operating costs. Increase in operating costs is predominantly driven by inflationary and above inflation price increases, increase in costs associated with the improvement of customer service, increase in network maintenance costs, and worsening of collections from our customers.

Operating profit increased by £1.0m reflecting the £4.8m increase in EBITDA as offset by a £3.8m increase in depreciation cost. Increase in depreciation is due to the increase in capital expenditure (£1.4m) and the depreciation charge on infrastructure assets (£2.4m).

Profit after tax increased by £4.0m to £17.1m. Tax for the year was a credit of £2.6m (2012/13: a charge of £2.3m). The £2.6m credit is the net impact of a reduction in future corporation tax rates and a favourable impact of tax discounting on opening deferred tax liability, as offset by tax charge on profit for the year. The impact of lower future tax rates and the discounting rate movements have not led to cash inflows during the year. Excluding the impacts of tax rate reduction and the increase in discounting rates on opening deferred tax liability, the effective tax rate was 19% (2012/13: 16%). The principal reason for the effective tax rate being lower than the standard corporation tax rate of 23% (2012/13: 24%) is the effect of discounting on the deferred tax movements during the year.

STRATEGIC REPORT (continued)

FINANCIAL KPIs (continued)

Net debt

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

Net debt excluding the 8.75% irredeemable cumulative preference shares was £279.8m (2012/13: £240.4m), representing approximately 68% (2012/13: 62%) of a Regulatory Capital Value of £411.3m (2012/13: £389.0m).

The Company actively manages the net debt (gearing) ratio and maintains a headroom margin to meet adverse impacts from risks and uncertainties.

The Company's 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, £12.7m remained unchanged from last year. The significant cashflows during the year were:

- cash inflow of £66.4m from operations,
- net cash outflow of £79.7m for capital expenditure,
- new borrowings of £51.6m,
- repayment of £16.1m debt,
- dividend payments of £13.2m, and
- net interest payments of £7.8m.

STRATEGIC REPORT (continued)

FINANCIAL KPIs (continued)

Capital programme

During the year, the Company invested £76.0m in capital expenditure. This follows our record highest investment year of 2012/13 (£88.5m) and again demonstrates the Company's commitment to deliver the AMP5 capital programme and to invest in our assets to maintain or enhance service to our customers.

We are now at the end of the fourth year of the AMP5 period and are on track to deliver all of the required outputs in the regulatory period. Capital investment during the year included the following key projects:

- The £25m scheme to renovate 58.6km of the trunk mains network through large parts of Bristol, North Somerset and the northern parts of the supply area. At 31 March 2014, we had completed 32km and the remaining work packages are expected to be completed by the end of the AMP5 period.

- Completion of internal lining of approximately 3km of the Line of Works. This is the 18km long large diameter aqueduct bringing raw water from the Mendips to our Barrow treatment works.

- Major refurbishment of Barrow No 3 raw water reservoir involving further grouting of the embankment and lining of the outlet pipe to maintain structural integrity.

- Replacement of over 38 km of the distribution mains network that was in poor condition.

- Completion of the £2.7m scheme to install a large diameter strategic trunk main to meet increasing demand in the south east part of our supply area.

- A programme to enhance the treatment process at five treatment works by installation of ultraviolet disinfection equipment. Four treatment works have been completed and are now operational and construction of the remaining site is progressing well.

- Construction work on the water treatment improvement schemes at Egford and Sherborne. The work is in progress and is expected to be completed by the end of the AMP5 period.

- A programme of refurbishment and replacement at our large pumping stations. The work is in progress at Purton, Blagdon and Victoria sites. Smaller sites of Almondsbury and Banwell Springs were completed during the year.

- Planning and public consultation relating to building a new 9,000 million litres Cheddar 2 reservoir in Somerset. The work has continued and the planning application was submitted on programme in December 2013.

STRATEGIC REPORT (continued)

REGULATORY PERIOD 2010-15 SUMMARY

In line with our Final Determination from PR09, the Company is progressing well to deliver the following key outputs during the regulatory period 2010-15:

- Installation of enhanced water treatment at seven treatment works to reduce risks from cryptosporidium, lead and nitrates contamination. This includes enhancement of the treatment process at five treatment works by installation of ultraviolet disinfection equipment, and work on the water treatment improvement schemes at Egford and Sherborne.
- Installation of surface aeration at our two surface water treatment works to reduce the risk of Trihalomethane formations due to zebra mussels.
- Catchment management schemes to reduce metaldehyde contamination.
- Lining of 58.6 km of trunk mains to address customer complaints for iron and discoloured water.
- Construction of a major resilience scheme for central Bristol.
- Maintenance of stable serviceability for infrastructure and non-infrastructure assets.
- A reducing leakage target (to 49 Ml/d by 2014).
- Preparatory work for Cheddar 2 reservoir.
- Replacing 47.5 km of mains per annum.

At 31 March 2014, progress towards completion of the above improvements was as follows:

- Four of the seven enhanced water treatment schemes are complete. The remaining three are in progress and are expected to be completed by the end of the AMP5 period.
- Installation of surface aeration at both the surface water treatment works has been completed.
- Catchment management schemes are progressing as planned.
- Trunk main lining has progressed as planned with 32 km now completed and the rest expected to be completed by the end of the AMP5 period.
- Construction of the major resilience scheme for central Bristol has been completed.
- We have continued to maintain stable serviceability for both infrastructure and non-infrastructure assets.
- We have been outperforming on our leakage target in each year of the AMP. 2013/14 leakage is at 44Ml/d.
- Preparatory Work for Cheddar 2 reservoir is on target. The planning application was submitted in December 2013.
- 206 km of mains have been replaced to date in the AMP5 period (an average of c 51.5 km a year).

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

STRATEGIC REPORT (continued)

DIVIDENDS

The Company practice is to pay an annual level of ordinary dividends comprising:

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

- an amount equal to the post-tax interest receivable from Bristol Water Holdings UK Limited, a UK parent company, in respect of inter-company loans.

Total base level dividend and dividend in respect of the intercompany loans paid during the year were £10.1m (2012/13: £11.7m) and £3.1m (2012/13: £3.0m) respectively. Further details of dividends paid and proposed during the year are disclosed in note 21 to the financial statements.

In addition, annual dividends of £1.1m (2012/13: £1.1m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the balance sheet, and the dividend is therefore shown as a finance cost in the profit and loss account.

PENSIONS

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

The latest triennial valuation of the pension scheme was completed as at 31 March 2013. The total deficit as at 31 March 2013 measured on a long-term scheme funding basis was £2.4m. This represented a funding level of 98.7%. As a result of the Trustee's advice the Company:

- made a deficit contribution of £0.4m for the financial year and has agreed to make an annual contribution of £0.4m plus inflation for future years, and

- increased the regular contributions for the main sub-section from 28.9% to 36.7% and for the alternative benefits sub-section from 17.6% to 24.9% from the financial year, of the relevant payroll costs.

An updated estimate of the scheme's funding deficit at 31 March 2014 indicated a funding surplus of £1.0m. The improvement in the funding position since the triennial valuation at 31 March 2013 reflects primarily the net result of increase in the Company's contribution rates since March 2013, and an increase in the discount rates used for measurement of present value of the pension obligation, as partially offset by reduction in yields available on long dated gilts. The funding surplus of £1.0m compares to £11.2m surplus in our accounts, in which we are required to follow the valuation concepts embodied in Financial Reporting Standard 17. The main difference between the funding and accounting positions is due to the use of a different approach to valuing scheme liabilities. Further financial information in relation to defined benefit and defined contribution pension schemes is disclosed in note 23 to the financial statements.

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY

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

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

The Company's implementation of the ERM framework includes the following hierarchy of responsibilities:

- **Board of Directors and Audit and Risk Assurance Committee** ("ARAC") (called Audit Committee until 27 March 2014) have overall governance responsibility for overseeing management's implementation of the risk management policy.

- **Internal Audit** is responsible for reviewing management's practices to manage risk and reporting to the ARAC.

- **Senior Management** is responsible for the implementation of the ERM framework to all applicable activities and reporting to the ARAC.

- **Business Units** are responsible for the application of a risk management framework to identify, monitor and report risk.

- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.

RISK AND UNCERTAINTY (continued)

Risk management processes

The Company's framework relies on the following six key ERM processes to integrate risk management activities with strategic and operational planning, decision-making and day-to-day oversight of business activities.

- **Risk identification** is the process of identifying and categorising risks that could impact the Company's objectives.
- **Risk assessment** is the process of determining the likelihood and impact of the risk. The Company uses a five point rating scale for likelihood and impact.
- **Risk prioritisation** is the process of ranking risks as high, medium or low based on the net risk rating as described in the diagram below.
- **Risk management** responses are measures taken to optimise the Company's net risk exposure within overall tolerance to achieve the desired balance between risk and reward.
- **Monitoring and reporting** are the processes of assessing the effectiveness of risk management responses.
- **Training and support** ensure that personnel tasked with risk management responsibilities have sufficient knowledge and experience to complete their risk management obligations.

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

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

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

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY (continued)

Strategic

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

- **Failure to deliver capital investment programmes**
  The Company is expected to continue to be required to undertake significant capital expenditures in its business, particularly in relation to new and replacement plant and equipment for water distribution networks and treatment facilities. Delivery of capital investment programmes could be affected by a number of factors which include availability of capital, availability of key technical staff and supplier chain, and incidence of catastrophic weather events. Failure to deliver capital investment programmes may affect the Company's ability to meet regulatory and other environmental performance standards, which may result in sanctions being imposed against it. In addition, the failure to successfully complete its capital investment programmes could adversely impact future calculations of RCV, which could adversely impact Ofwat's determination of future price limits for the Company.

Reputational

- **SIM and the serviceability assessment**
  For the 2010-15 period, Ofwat introduced the SIM which compares water companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service they receive. Underperformance on SIM is considered as a reputational risk as the SIM performance reflects our customers' satisfaction of our service.

  Depending upon the Company's relative performance under the SIM, it could receive a reduced or increased revenue allowance when price limits are next reset in December 2014. In addition, the Company is required to maintain the serviceability of its water assets, so that we continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat may impose a reduced revenue allowance at the next price review. In addition, if performance were to decline, the Company may incur additional operating or capital expenditure to restore performance.
  We actively monitor the SIM performance, and focus on improving the level of customer and stakeholder engagement to address the reputational risk.

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY (continued)

Operational

- **Operational performance**
  The Company controls and operates a large water network and maintains the associated assets with the objective of providing high quality drinking water on a continuous basis. However, its facilities are subject to risks related to premature wear or failure, defects in design, material or workmanship, longer than anticipated down times for maintenance and repair, energy shortages, malicious intervention, failure by a supplier, human error, unavailability of access to critical sites or key staff, labour disputes, pollution or contamination and other events. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of each facility.

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

Regulatory and environmental

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

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

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY (continued)

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

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

Financial

- **Economic conditions**
  The Company's RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted to reflect this decrease. Further, generally unfavourable economic conditions may adversely influence Ofwat's determination of future price limits. Further details of financial risks faced by the Company and the related mitigating factors are included in note 16 to the financial statements.

- **Input price risk**
  Management has limited control over future energy or chemical costs, abstraction charges, levels of customer bad debt or taxes. In particular, since 2000, domestic customers cannot be disconnected from their water supply for failure to pay their bill. An allowance for bad debts is included when Ofwat sets price limits, which partially mitigates the financial risk to the Company.

  We expect energy costs to remain volatile in the future, albeit the Company's policy is to closely monitor the prices and enter into a series of forward contracts. This provides some smoothing of price changes.

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

STRATEGIC REPORT (continued)

OUTLOOK

The main drivers of future profitability are expected to be:

- increases in charges to customers in line with the RPI+/-K price limits. The ‘K’ factor allowed for 2014/15, the last year of AMP5, is 3.8%;
- changes in operating costs – further efficiencies are expected to be achieved but offset by the cost of new obligations and inflation;
- inflation or deflation – operating costs, the capital investment programme and the Company’s £167.6m of index-linked debt are subject to inflation based on RPI at various points in the year; potential adverse impacts of high inflation or deflation are mitigated by the index-linking of the majority of revenues through the previous year’s November RPI added to the K factor in the price limits;
- energy costs – energy costs are significant for the Company; spot power costs are constantly changing in line with crude oil and gas markets. Total energy costs during the year increased by 10% compared to the last year. This increase was primarily due to an increase in forward purchased energy prices. We currently anticipate that energy costs for the next financial year will again increase due to increases in forward purchase prices. We expect energy costs to remain volatile in the future, albeit the Company’s policy is to closely monitor the prices and enter into a series of forward contracts. This provides some smoothing of price changes;
- impact of movements in socio economic conditions on bad debt provision in future years;
- 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; and
- any unexpected changes to the regulatory regime.

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

Luis García
Chief Executive Officer
14 July 2014

CORPORATE RESPONSIBILITY REPORT

We are committed to delivering services responsibly and sustainably to meet our customers' and stakeholders' needs whilst managing the social, environmental and economic impacts of our business.

The Company endeavours to act as a responsible tax payer. The Board annually approves a Taxation Policy that outlines the way it expects the Company should conduct its overall tax affairs.

This report provides an overview of our position and progress towards being a sustainable business by providing a greater service to our customers, protecting and enhancing our environment, helping our employees to achieve their full potential, managing our supply chain and supporting our local communities.

Customers

We continually work to improve the services we provide to meet customer expectations whilst acknowledging that their requirements and expectations change over time:

- Customer service - Our continued focus on customer service has delivered excellent results again this year, as detailed in the Strategic Report.

- Customer satisfaction – Independent monthly and annual customer satisfaction research is carried out so that we can measure customer satisfaction. In the annual household customer survey carried out in February 2014, for the second year running 93% of respondents stated that the service they received was excellent, very good or fairly good. 83% of respondents felt that we have a good reputation (an increase of 1% on last year).

  In the monthly surveys, customers who have contacted us for any reason within the period are randomly selected and interviewed to measure how well we responded to their enquiries. In 2013 we adopted a methodology closely modelled on Ofwat's quarterly SIM survey. At the end of the survey, respondents rate their overall level of satisfaction with our response to their enquiries, which is reported as a score out of 5. In 2013 we received a score of 4.51 for overall satisfaction with our services.

- Support for customers – Our work to support customers struggling to pay their water bills has continued over the year with a more proactive approach to customers who may potentially benefit from the social tariff and payment schemes we offer.

  The Company's 'Restart' and 'Restart Plus' schemes together with our 'Assist' tariff, aim to help customers who are in financial difficulty get back on track and in control of their finances. We have just under 7,400 households benefiting from these schemes currently.

  Our metered tariff WaterSure Plus, for customers who are in receipt of certain benefits and are defined by the Government as 'vulnerable' either because they have three or more children under the age of 19 or a member of their household is suffering from a medical condition requiring them to use significantly more water than average, now covers approximately 1,440 households. Of these households, two thirds fell into the large family category and one third into the medical condition category.

CORPORATE RESPONSIBILITY REPORT (continued)

Customers (continued)

We continue to work with Citizen's Advice Bureaux and not-for-profit money advice organisations across our supply area and in the past year we have formed new relationships with online and national telephone money advice agencies providing customers with even more opportunities to get free financial support and advice.

In the past year we have donated £100,000 to debt advice agencies across our supply area which will help them to continue to offer free debt advice to our customers.

- Customer communications – With the continuation of the engineering improvements work across our region, communication is extremely important in ensuring customers are kept informed of planned work and its progress. As part of our communications strategy we have hosted a number of drop-in sessions using our mobile Customer Services Unit ("CSU") in areas where we have been undertaking engineering works. These events have been advertised in the local press and also by writing to households affected, giving customers the opportunity to discuss the implications of our works and the impact it will have on them.

  'WaterTalk' our customer newsletter provides us with an important and cost effective medium to publicise key messages and this is distributed twice a year to all households within our supply area. Our new style website is also used to maintain up-to-date customer information and when operational problems occur, allows us to post emergency messages which can be easily updated.

Environment

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

- Leaks and bursts - We have met our lowest ever leakage target set by Ofwat with leakage levels continuing to be amongst the best in the UK. Leakage targets are set by Ofwat at a level where the overall value of the water lost is balanced out by the costs of increased leakage control activity. Over the past year we repaired around 5,000 leaks on our network distribution system, including approximately 900 burst water mains. In addition to the leaks repaired on our network we also identified in excess of 1,800 leaks on private customer service pipes, providing free or subsidised repair of these private leaks in more than a third of cases. A large proportion of the 900 burst mains repairs were carried out using non-disruptive techniques preventing water supply interruptions to customers.

- Water efficiency campaigns – On average our customers use about 150 litres of water per person every day so it is important for us to provide free water efficiency equipment, business water use audits and educational programmes to help our customers save water. We also work with local government to improve the efficiency of their own properties. Since we started our investment in water efficiency in 2010, we have helped our customers save an estimated total of over three billion litres of water.

CORPORATE RESPONSIBILITY REPORT (continued)

Environment (continued)

Over 32,000 free water saving items were distributed to domestic customers across our region at public events including festivals, promotional events at shopping malls and places of work. This equates to just under half a million litres of water each day being saved by our customers. In addition to this, 48 schools participated in our Eco School Challenge this year, resulting in estimated 35 million litres of water being saved during the year through the fitting of water saving devices in schoolchildren's homes.

- Energy and carbon emissions - This year our carbon footprint is almost the same as last year's figure, thanks to the efforts we have made on water efficiency and renewable energy. This is further detailed on page 19 of the Strategic Report.

  By helping our customers save water, this reduces our own energy consumption because less water is pumped – we estimate that in the last year, water efficiency initiatives will have saved more than 400,000 kg CO_2 from pumping costs alone.

- Biodiversity matters – Work continues with stakeholders to protect the special sites we own and also provide training and education for wildlife groups and the public.

  Our joint project with Bristol Zoo and Avon Wildlife Trust on an endangered species protection programme for white-clawed crayfish is still going strong with hundreds of crayfish recently transferred to several secret "ark sites" where they can be safe from the non-native crayfish that have caused so many problems in other streams and watercourses. Our 'Trout & About' partnership with Avon Wildlife Trust, which involves working with schools so that young pupils can rear trout for release back into the natural environment was awarded a Green Organisation international award for education and corporate social responsibility. We also worked in partnership with the Environment Agency on an innovative 'trap and transfer' project at one of our sites where eels, which are a critically endangered species with numbers falling by over 95% in the past 20 years, are assisted in their quest to reach ideal natural habitats so that their population can increase.

- Catchment management - We have been successfully working with farmers and landholders on protecting the water sources we use for public water supply which has meant that the level of metaldehyde (the active component used in slug pellets) was reduced to a level which our treatment systems were able to manage. This engagement programme has included training, education, individual plans for farmers managing their fields together with regular water quality checks so that issues are communicated quickly to landholders who can affect the quality of water.

- Environmental projects – As stewards of many sites which are SSSIs, situated in Areas of Outstanding Natural Beauty we have a responsibility to maintain and wherever possible improve them. Our SSI status for all our sites remained at 100%. This year has seen us working with a number of organisations focused on delivering interesting environmental projects. We have worked on numerous projects over the years, some of which have required us to conceal the location of them to protect the species which have been relocated or reintroduced into areas, but this is a sample of what we have been doing in the last year:

CORPORATE RESPONSIBILITY REPORT (continued)

Environment (continued)

Chew Lake Bird Hide - Birdwatchers from all over the UK come to our sites because of the diversity of visiting birds. The bird hide that was erected in 2012 has proven to be far more popular than the structure it replaced with many school pupils and families now accessing this area of the lake due to the improved public access, without disturbing wildlife. To encourage a wider range of visitors to this site we hosted an event in partnership with the Bristol Natural History Consortium and this event has now been shortlisted for an Arts & Business Award.

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

Employees

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

- Safe working practices – We take the health and safety of our employees, contractors and members of the public very seriously and invest in continuous training programmes and audits of both the safety management system and the management of operational activities. Supporting this programme of audits, we undertake an extensive programme of site safety inspections both on permanent fixed sites such as Treatment Works and on temporary streetworks sites in the public highway. Actions from both audits and inspections are managed through a robust internal process so that hazards or any other issues are resolved as promptly as possible.

  Our health and safety performance is reviewed at various levels within the Company through a variety of mechanisms, the most senior of which being the Board. This reflects our belief that the health and safety of all individuals coming into contact with our business should be of paramount consideration at the highest level within the Company.

  We place significant emphasis on improving health and safety performance through strong employee engagement. Key elements of our employee engagement programme are the Health and Safety Committee and the Health and Safety Action Group. The Health and Safety Action Group in particular have launched a number of initiatives during the year related to health and safety issues both at work and at home; these initiatives included a Well-Being week, an associated healthy eating recipe book, as well as a Sports Day. We also use various communication methods to promote health and safety tips and information across the business, such as the e-newsletter, our Safety Foresight document and a scheme to encourage hazard reporting which has resulted in a ten- fold increase in the number of hazards being reported.

  One of our key aims is to reduce the number of accidents reportable to the HSE to zero which requires total commitment from all employees and contractors to achieve this target as well as a focus on continual improvement across all business processes.

CORPORATE RESPONSIBILITY REPORT (continued)

Employees (continued)

- Skilled workforce – Our employees are fundamental to the success of the business and our achievements to date are as a result of their hard work and determination to meet the challenges we are faced with. To be able to deliver results we need to ensure our workforce is skilled and we effect this through a comprehensive programme of training and development. A total of 138 training and development courses have been organised for our staff involving nearly 81% of our workforce who have attended at least one of these courses. Some of these courses have been job specific - confined space awareness, breathing apparatus training, water hygiene and first aid training but staff have also attended general courses to enhance their personal development.

- Motivated workforce – We aim to be a responsible employer for whom people choose to work and to ensure that our staff are well trained, competent and motivated, whilst being appropriately rewarded for their efforts. At the 2013 annual company briefing, employees were asked how engaged (defined as how positive, interested, motivated and passionate) they were in the Bristol Water journey. 89% of employees asked were engaged in driving the desired business outcomes and 92% of employees asked said they were engaged in developing a sustainable Bristol Water.

  We want the Company to be a great place to work and ways we try to motivate and help staff develop include:

  - Business4Life – One of our Water Quality Scientists participated in the Business4life programme which challenges members to organise fundraising events whilst developing their management skills. The team had been tasked to raise at least £50,000 over a 12 month period and successfully completed the challenge by raising £52,536 for WaterAid, the water industry's recognised charity.

  - Brainwaves – In its 12th year, this improvement scheme continues to generate ways for improving efficiency and reducing operating costs across the business. Ideas submitted by employees are evaluated by a panel and where an initiative improves the way the business operates the employee receives an award. All valid improvements are recognised and those that result in significant benefits are also rewarded by a financial award related to the business benefit delivered. Over the years, a wide range of ideas to improve the efficiency of the organisation, the quality of service we provide to our customers and/or help make the Company a great place to work have been received.

  - Wellbeing Charter Award – Our employees' wellbeing is important to us and part of our wellbeing plan has seen us take an important step by having what we do for our employees formally recognised. Our Human Relations and Health and Safety teams worked collaboratively to achieve the 'Workplace Wellbeing Charter' which recognises the positive way we manage the business and support our workforce. It demonstrates that we are working to a set of locally and nationally agreed standards.

    The teams worked alongside Bristol City Council who are championing the Wellbeing Charter for Bristol. With their support and guidance we achieved the 'Commitment' level and we now intend to continue to work towards 'Achievement' and 'Excellence' levels.

CORPORATE RESPONSIBILITY REPORT (continued)

Suppliers

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

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

As part of the appointment process; contracting partners have to meet the rigorous delivery criteria that we apply within our business. Many of our contractors are in daily contact with our customers and it is therefore important that, as our representatives, they demonstrate professionalism and good customer-focused skills. Following the success of the introduction of designated 'Here to help' staff on major renovations projects, we have rolled this initiative out across our projects ensuring site personnel are able to respond to individual queries at all times. The introduction of these important customer service roles has been one of the success factors of our capital investment programme with many customer compliments for staff being regularly received.

Community Support

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

- Community initiatives – With the appointment of our new Community Liaison Officer, Bristol Water has increased its profile across communities. We currently work with around 50% of local primary schools in our supply area, but we have embarked on a wider programme of educating community groups on a range of different topics including water treatment processes, the history of Bristol Water, water conservation and WaterAid. In addition, our mobile CSU has been at a number of events including the Festival of Nature, Bristol Islamic Cultural Fayre and at a number of supermarkets across the region to promote metering and saving water.

- Debt Management Funding – As part of our commitment to assist customers struggling to pay their water bills, we have provided £100,000 to not-for-profit debt advice agencies in our supply area who provide invaluable financial advice and support to these customers. These donations help customers in financial distress to get the free independent support and help they need from these specialist advice agencies.

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

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

CORPORATE RESPONSIBILITY REPORT (continued)

Community Support (continued)

Sponsorships – Bristol Water was a key partner in Bristol City Council's submission for the 2015 EU Green Capital competition. Following the successful bid our Environment Manager is leading the "Water Group" for the Green Capital, bringing together organisations and individuals involved in every aspect of water in a modern and sustainable city - from protecting and enjoying the natural water environment to helping people use water more efficiently.

The Bristol Civic Society Environmental awards for buildings or sites anywhere in Bristol were sponsored by the Company. Public nominations are judged on how environmentally important they are, with winners receiving a prestigious plaque that is displayed on the building incorporating Bristol Water's name.

For the second year we sponsored the Festival of Nature, an event which attracts over 35,000 visitors to central Bristol over a two day period. In conjunction with the organisers, we also hosted a one day event at the new bird hide at Chew Valley Lake. We worked with local artists and visitors to decorate the hide, learn about the bird life around the lake, explore the nature trails and encourage them to enjoy this wonderful environment.

We are a corporate partner to Bristol Museums, Galleries and Archives and are a key sponsor of their educational programme. We supported the educational programme for the British Museum Tour – Roman Empire 'Power and People' which was hosted by the Bristol Museum and Art Gallery with 600 children participating in the programme.

- Fundraising – We continue to support WaterAid's annual appeal by including a promotional leaflet in with our bills. As we bill jointly with Wessex Water, last year 240 customers from across both our supply areas signed up to regularly donate to WaterAid equating to a forecasted one year income of nearly £14,000. 40 customers also made one-off donations of just under £2,300.

  We also recycle any scrap metal generated through the course of our business activities and the money received from this exercise is donated to local charitable causes.

  Our staff are also encouraged to support their chosen charities through 'dress-down' days and other fund raising initiatives.

CORPORATE RESPONSIBILITY REPORT (continued)

Community Support (continued)

- Rachel's Scheme – The brainchild of one of our employees, the scheme was created to reward employees who give up their free time to work voluntarily for the benefit of the wider community. Employees can apply for a grant which is paid direct to the organisation that they voluntarily work with, in order that they can improve the services they offer.

- Open days – During the year we held 10 public open days with over 5,500 visitors attending. Of these, 9 were on Sunday afternoons at our Blagdon pumping station and visitor centre which houses historic beam pumping engines and has a series of exhibition rooms featuring interactive displays, videos and historic items. We also held an event at Chew Valley Lake in conjunction with the Bristol Natural History Consortium to raise awareness of the nature trails and the new bird hide.

Luis García
Chief Executive Officer
14 July 2014

BOARD OF DIRECTORS

Keith Ludeman Age 64

Non-Executive Chairman, Chairman of Nomination Committee

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

Luis García Age 49

Chief Executive, Member of Nomination Committee

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

Mick Axtell Age 42

Finance Director

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

Michael King Age 49

Regulatory Director

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

Peter McIlwraith Age 66

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

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

Chris Curling Age 64

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

Mr Curling was appointed to the Board in 2004. He is a non-executive director of two listed companies and has a number of appointments in the Bristol regional voluntary sector and as national chairman of Sustrans. For many years he was a corporate lawyer and for 15 years he was Managing or Senior Partner of the law firm Osborne Clarke.

Robert Davis Age 66

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

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

BOARD OF DIRECTORS (continued)

Michael Bernstein Age 46

Non-Executive, Member of Nomination and Remuneration Committees

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

Michael Smerdon Age 43

Non-Executive, Member of ARAC

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

Jack Bittan Age 36

Non-Executive

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

Anthony Harding Age 65

Non-Executive, Member of Remuneration Committee

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

Paul Bourdillon Age 42

Non-Executive

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

Hajime Ichishi Age 39

Non-Executive

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

Note:

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

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2014.

Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 28 to 32.

The total dividend paid during the year ended 31 March 2014 was 220.2p (2012/13: 245.3p) per ordinary share. The Board has proposed a final dividend of £3.3m in respect of the year ended 31 March 2014 (31 March 2013: £3.1m). The Company policy for dividends to shareholders is contained in the Strategic Report on page 32. Further details of dividends paid and proposed during the year are disclosed in note 21 to the financial statements.

Capital structure

Details of the issued share capital are shown in notes 14 and 19. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

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

Under its Articles of Association and the Companies Acts, the Company has in issue 5,998,025 ordinary shares as disclosed in note 19. All the ordinary shares are owned by Bristol Water Core Holdings Limited, which is itself a wholly owned subsidiary within CSE Water UK group. In addition, the Company has in issue 12,500,000 8.75% irredeemable cumulative preference shares of £1 each, details of which are disclosed in note 14.

GOING CONCERN

As detailed in the Corporate Governance Report on page 66, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

FINANCIAL RISK MANAGEMENT

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

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

K Ludeman *Chairman*
L García, *Chief Executive*
M Axtell, Finance Director (appointed on 30 January 2014)
M Anglada, Finance Director (resigned on 30 January 2014)
M King, *Regulatory Director*
P McIlwraith, *Non-Executive*
C Curling, *Non-Executive*
R Davis, *Non-Executive*
M Bernstein, *Non-Executive*
M Smerdon, *Non-Executive*
J Bittan, *Non-Executive*
A Harding, *Non-Executive*
P Bourdillon, *Non-Executive*
H Ichishi, *Non-Executive*

Messrs García, McIlwraith, Curling and Davis will offer themselves for re-election and Mr Axtell will offer himself for election at the Annual General Meeting.

Service contracts

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

Other interests

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

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

The interests in shares and other contracts of Messrs García, Anglada (resigned on 30 January 2014), Bourdillon, and Harding with other companies within the Agbar or Suez groups are not disclosed within this report.

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

ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

RESEARCH AND DEVELOPMENT

The Company undertakes research and development projects in relation to its business. Expenditure during the year amounted to £0.1m (2012/13: £0.1m).

FINANCIAL INSTRUMENTS

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

DIRECTORS’ REPORT (continued)

INSTRUMENT OF APPOINTMENT AND REGULATORY ACCOUNTS

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

DIRECTORS’ QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

EMPLOYEES

Information on employment policies and practices is contained within the ‘Best people right culture’ part of the Strategic Report on pages 24 and 25.

ENVIRONMENTAL MATTERS

Information on environmental matters and KPIs are contained within the ‘Environmentally sustainable’ part of the Strategic Report on pages 17 to 20.

OUTLOOK

Commentary on the main drivers of future profitability is contained in the Strategic Report on page 38.

THE STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

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

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

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

Each of the directors, whose names and functions are listed on page 50, confirms that, to the best of his knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 53 to 66. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

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

Stephen Robson
Company Secretary
14 July 2014

CORPORATE GOVERNANCE REPORT

Introduction

The Board is committed to ensuring that the Company is run in the best long-term interests of our customers, shareholders and wider stakeholders. We believe this can only be achieved if the activities of the Company are supported by appropriate governance processes. This is also the approach taken by our economic regulator, Ofwat, which has led to the publication of Ofwat's principles of Board Leadership, Transparency and Governance, the "Ofwat Principles".

We have now developed our own code of corporate governance bringing together both the Ofwat Principles and the UK Corporate Governance Code. As part of our focus on corporate governance this year we have had an external evaluation of the Board's effectiveness and details of this are set out in the report.

Application of the UK Corporate Governance Code

In September 2012 the Financial Reporting Council published the 2012 edition of the UK Corporate Governance Code ("the Code") which contains broad principles and specific provisions to help boards operate in the best interests of their companies. This Code applied to the Company throughout the financial year.

The Company has applied the main principles of the Code and complied with its detailed provisions throughout the financial year. We detail below how, in practice, the Company has applied these principles and complied with the detailed provisions as well as the Ofwat principles.

Adoption of Bristol Water's code and the Ofwat Principles

We will report on compliance next year with our new code which takes in the requirements of both the Ofwat principles and the Code. This new Bristol Water code is available on our website and a note of current compliance will be made available on the website shortly.

The Board considers that it complies with all of the Ofwat principles except that the composition of the Board does not reflect Ofwat's view that the number of shareholder representative directors will not be greater than the number of independent directors, excluding the chairman. The Board is committed to use its best endeavours to address this issue in the next financial year, whilst recognising that this is primarily a matter for the shareholders.

Board and Board committees

At 31 March 2014 the Board comprised the Chairman (a non-executive director), three executive directors and nine other non-executive directors. Three of the non-executive directors are, in the opinion of the Board, independent. Messrs Curling and McIlwraith have both served for more than nine years on the Board, and the Code requires the Board to specifically assess that these directors are independent of the executive as a result of this fact. That assessment has been carried out by the Board and the Board believes that this time served has not caused the two directors to cease to be independent either in character or in judgement. Given the importance of the five year cycles of the regulated business the Board wishes to retain the benefit of their experience at this point in the regulatory cycle. This assessment has been made by the Board based on its views of their performance on the Board and taking into account their experience and character. The independent non-executive directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The independent directors are of sufficient calibre and number to ensure that their views carry significant weight in the Board's decision making.

Board and Board committees (continued)

On 30 January 2014 Mr Anglada resigned and Mr Axtell was appointed as the Finance Director. Mr Axtell joined the Company as Deputy Finance Director in September 2013 and has previously held a number of senior finance roles at RWE, one of Europe's leading electricity and gas companies. The recruitment process was conducted by an external independent firm in conjunction with a team appointed by the Nomination Committee consisting of Messrs McIlwraith, Smerdon and Anglada. Mr García was also involved in the recruitment process.

The Board executes overall control of the Company's affairs by reference to the schedule of matters reserved for its decision. These include the approval of strategy, financial statements, major capital expenditure, authority levels for expenditure, treasury, and risk management policies. In furtherance of its duties, there are agreed procedures for the directors to take independent professional advice, if necessary, at the Company's expense. All directors have access to the advice and services of the Company Secretary.

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

Review of the Board performance

The Board considers the annual review of the Board performance to be an essential part of good corporate governance and during the year the Board conducted an evaluation of its performance, including that of its committees and the individual directors. Evaluation of the Board performance was externally facilitated with an independent firm, Magnesium Financial Management LLP, which is wholly independent of the Company.

Beginning in November 2013, each director and senior manager regularly attending the Board meetings was asked to consider and rate a series of wide-ranging questions tailored specifically for the Company. Responses were received confidentially by the facilitator and face-to-face interviews with each respondent then followed. The facilitator was present throughout the January 2014 Board meeting.

The facilitator discussed the subsequent report of findings with the Chairman in March 2014 and, together with his responses, the final report was presented at the 27 March 2014 Board meeting for discussion and adoption.

Overall, the evaluation concluded that the Company's governance processes were working well and that the Board and its leadership were effective. The responses, interviews and first-hand observations indicate that the Board is a positive one and discussions are frank and open.

Reviewing the responses having a rating at the lower end of the rating scale, the key recommendations that arose from this evaluation were:

- Further focus on the succession planning of executives and independent non-executive directors.
- Adoption of a 'strategy day' approach to further enhance the Company's ability to respond to a rapidly changing environment.
- Wider dissemination of the risk assessments undertaken by management and third-parties.
- Continue the ongoing review of the Board's composition and relevant skills.

These recommendations have provided valuable insights and action points to drive improvements in corporate governance in the Company. We intend to report annually on the Board performance with reference to actions identified and progress achieved in the intervening periods.

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

CORPORATE GOVERNANCE REPORT (continued)

Board and Board committees (continued)

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

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

	Board meetings attended (maximum 8)	Maximum possible during appointment period	Percentage attendance during appointment period	Number of meetings ARAC meetings (maximum 5)	Remuneration Committee meetings (maximum 4)	Nomination Committee meetings (maximum 1)
K Ludeman, *Chairman*	8	8	100%			1
L García, *Chief Executive*	8	8	100%			1
M Axtell, *Finance Director (appointed on 30 January 2014)*	1	1	100%			
M Anglada, *Finance Director (resigned on 30 January 2014)*	7	7	100%			
M King, *Regulatory Director*	8	8	100%			
P McIlwraith, *Non-Executive*	8	8	100%	5	4	1
C Curling, *Non-Executive*	8	8	100%	4	4	1
R Davis, *Non-Executive*	8	8	100%	5	4	1
M Bernstein, *Non-Executive*	8	8	100%		4	1
M Smerdon, *Non-Executive*	8	8	100%	5		
J Bittan, *Non-Executive*	7	8	88%			
A Harding, *Non-Executive*	8	8	100%		4	1
P Bourdillon, *Non-Executive*	8	8	100%			
H Ichishi, *Non-Executive*	8	8	100%			

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

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

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.

CORPORATE GOVERNANCE REPORT (continued)

Board and Board committees (continued)

Audit and Risk Assurance Committee ("ARAC")

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

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

Key financial judgements considered by the Committee

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

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

Financial Judgement	How the Committee addressed the judgement
Pension valuation Pension arrangements for the Company's employees are provided partly through the Company's membership of the WCPS, which provides defined benefits based on final pensionable pay. Due to the nature of the benefit, the amounts recognised in the financial statements which are based on the principles set out in FRS17, involve significant assumptions including: • future level of members' salaries, • longevity estimation for scheme members, • rate of return on the scheme assets, • calculation of the present value of pension liability, and • other demographic factors. Accordingly, accounting for pension is regarded as a key judgemental area.	Specific factors considered by the Committee: • The calculations for determining the pension position performed by an independent and qualified actuary in accordance with the principles of the accounting standard (FRS17). • An assessment of the degree of prudence within these assumptions. • A more detailed review of the key actuarial assumptions is made by the actuary when carrying out valuation of BW section for funding purposes every three years. The last funding valuation was performed as of 31 March 2013.

CORPORATE GOVERNANCE REPORT (continued)

Board and Board committees (continued)

Audit and Risk Assurance Committee ("ARAC") (continued)

Key financial judgements considered by the Committee (continued)

Financial Judgement	How the Committee addressed the judgement
Bad debt provision Amongst utilities, water companies are in a unique situation whereby they have a statutory duty to supply customers, but no statutory power, in case of non-recovery of the water bills, to cut-off supply of domestic water users. This contributes to a higher level of bad debt in the water industry compared to other utilities despite the fact that water bills generally cost less than other utilities. The calculation of bad debt provision is based on estimation of collection rates in future years, and therefore involves a degree of management judgement as to the appropriateness of the provision level relative to the debtor balances.	Specific factors considered by the Committee: • The Committee has reviewed the key aspects of the calculation and has had detailed discussions with the management on the basis for judgment applied for the bad debt provision. • The method of calculation is considered to be sufficiently prudent. All debt that is over four years old is fully provided for, and the provision for the amounts less than four years old, follows a system approach based on the historic collection rates. • The judgment applied by the management is considered appropriate and functions as a bridge between the provision calculation based on historic collection rates, and the recent collection trends and economic factors. The underlying collection and debtor balances information, used for the calculation of the provision, is provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to collate this information. The Committee sees this as an area of significant judgment, and therefore continually monitors the method and judgment used by the management, and the industry trends prepared by an independent accountancy firm.
Accounting for expenditure on infrastructure assets The Company owns a network of mains and associated underground pipework, and impounding and pumped raw water storage reservoirs. These assets are collectively called 'Infrastructure assets'. Depending on the nature of the underlying work, expenditure on infrastructure assets is either capitalised as addition to fixed assets or treated as operational cost in the Profit and Loss Account. Given the size and complex nature of the capital programme, the accounting for infrastructure projects involves significant management judgment.	Specific factors considered by the Committee: • The nature of capital projects is reviewed by the Capital Planning and Finance teams to determine their accounting treatment. • There are robust processes and controls to appropriately allocate staff time between work on capital and operational projects. • Management perform quarterly reviews of the actual financial performance versus budget which helps identify anomalies in accounting treatment of infrastructure projects.

CORPORATE GOVERNANCE REPORT (continued)

Board and Board committees (continued)

Audit and Risk Assurance Committee ("ARAC") (continued)

Other significant financial matter considered by the Committee

Financial matter	How the Committee addressed these matters
Revenue recognition Based on the number of properties, approximately 46% of our customers have a water meter installed at their properties. Meters for the majority of the customers are read on a six monthly basis. Therefore at the end of the year an estimation of water consumed by the customers, over the period between their last meter reading date and the year-end date, is made and an income accrual made accordingly.	Specific factors considered by the Committee: • The income accrual is based on historic metered volumes, calculation of consumption not billed, and the applicable tariffs. • Underlying data is sourced from a robust system and audited procedures are used to calculate the accrual. • The accrued income amounts and supporting reports are reviewed for reasonableness by the Company's management.

External auditors

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

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

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

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

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

CORPORATE GOVERNANCE REPORT (continued)

Board and Board committees (continued)

Audit and Risk Assurance Committee ("ARAC") (continued)

External auditors (continued)

External audit tendering

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

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

Internal auditors

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

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

Remuneration Committee

The role and composition of the Remuneration Committee is set out in the Remuneration Committee Report on page 68.

Nomination Committee

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

The Committee met during the year to discuss succession planning and a replacement for Mr Anglada as a finance director. The Committee delegated responsibility for the initial stages of the recruitment and candidates were provided by certain independent recruitment agencies. Candidates met with members of the Board and the Committee during the recruitment process. The Committee met to approve the recruitment of Mr Axtell as Deputy Finance Director as part of the handover planning and then later to formally approve his appointment as the Finance Director.

Board and Board committees (continued)

Nomination Committee (continued)

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

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

Currently there is no female representation at the Board level. In our workforce of 554 at 31 March 2014 around 31% were women. Whilst in senior/middle management executive positions the female representation was around 19%. The Nomination Committee is tasked by the Board to review and monitor compliance with the Board Diversity Policy and report in the Annual Report each year.

Induction and training of directors

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

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

Retirement and re-election of directors

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

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

CORPORATE GOVERNANCE REPORT (continued)

Group Structure

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

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

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

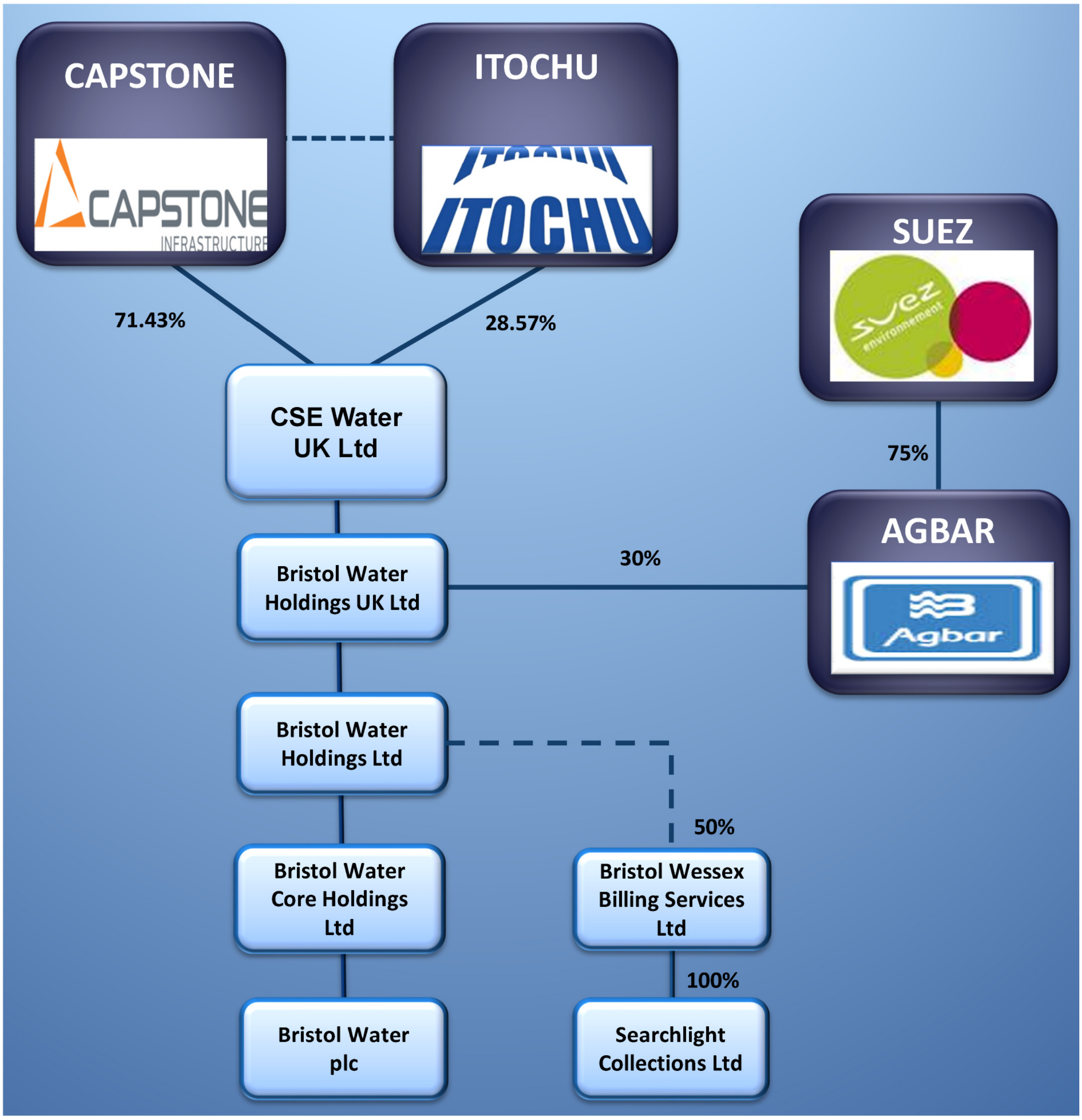
Capstone can confirm as follows:

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

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

CORPORATE GOVERNANCE REPORT (continued)

Group structure (continued)



CORPORATE GOVERNANCE REPORT (continued)

Group structure (continued)

Capstone Infrastructure Corporation **Directors** V. James Sardo Michael Bernstein Goran Mornhed Jerry Patava Francois Roy Janet Woodruff Richard Knowles	• Incorporated in British Columbia, Canada • Quoted on the Toronto Stock Exchange
MPT Utilities Corporation - Capstone owns 100% of this company **Directors** Michael Bernstein Michael Smerdon Stu Miller	• Holding company • Incorporated in British Columbia, Canada
MPT Utilities Europe Limited - MPT Utilities Corporation owns 100% of this company **Directors** Michael Bernstein Michael Smerdon Stu Miller	• Holding company • Incorporated in British Columbia, Canada
CSE Water Limited - MPT Utilities Europe Limited owns 71.4% and Itochu Corporation owns 28.6% of this company **Directors** Michael Bernstein Michael Smerdon Jack Bittan Hajime Ichishi	• Holding company • Incorporated in England & Wales
Bristol Water Holdings UK Limited - CSE Water owns 70% and Agbar owns 30% of this company **Directors** Michael Bernstein Michael Smerdon Jack Bittan Juan Antonio Guijarro Ferrer Paul Bourdillon Hajime Ichishi	• Holding company • Incorporated in England & Wales

CORPORATE GOVERNANCE REPORT (continued)

Group structure (continued)

Bristol Water Holdings Limited - Bristol Water Holdings UK Limited owns 100% of this company **Directors** Michael Bernstein Michael Smerdon Jack Bittan Juan Antonio Guijarro Ferrer Paul Bourdillon Hajime Ichishi	• Holding company • Incorporated in England & Wales
Bristol Water Core Holdings Limited - Bristol Water Holdings Limited owns 100% of this company **Directors** Michael Bernstein Michael Smerdon Jack Bittan Juan Antonio Guijarro Ferrer Paul Bourdillon Hajime Ichishi	• Holding company • Incorporated in England & Wales • part of Artesian securitisation structure
Bristol Water plc - Bristol Water Core Holdings Limited owns 100% of this company **Directors** Details of the directors are provided on pages 47 and 48 above.	• Holds a licence as water undertaker under Water Industry Act 1991 • Incorporated in England & Wales
Bristol Wessex Billing Services Limited **Directors** John Coppack John Vinson Colin Skellett Andrew Pymer Luis García Philip Marshall	• Joint venture billing company (50% owned by Bristol Water Holdings Limited) • Incorporated in England & Wales
Searchlight Collections Limited **Directors** John Coppack John Vinson	• Debt collection company (100% owned by BWBSL) • Incorporated in England & Wales

CORPORATE GOVERNANCE REPORT (continued)

Internal control

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

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

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

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

The Company operates through a formal board structure, which:

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

The ARAC:

- reviews internal and external audit work plans and commissions, where appropriate, reviews of specific issues;
- 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:

- 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 10 July 2014 in order to form a view on the overall effectiveness of the system of internal control. The review included an assessment of the effectiveness of internal controls within the group's joint venture, BWBSL.

From the 10 July 2014 review the Board concluded that the overall internal control framework was working effectively.

CORPORATE GOVERNANCE REPORT (continued)

Directors' responsibilities in respect of the Annual Report

The statement of the directors in respect of the Annual Report, and the statement of directors' responsibilities are contained within the Directors' Report on pages 51 and 52.

Going concern

In December 2014 Ofwat is scheduled to set final determinations of price limits and regulatory output requirements for the five years period March 2015-2020 for water companies in England and Wales.

The Company originally submitted its Business Plan to Ofwat in December 2013, and submitted a revised Business Plan in June 2014 as required by the process. Ofwat is scheduled to publish a draft determination at the end of August 2014 to which the Company will have an opportunity to respond before Ofwat issues the final determination by December 2014.

In considering the going concern basis, the directors have considered a range of possible scenarios, both favourable and unfavourable, which may arise after Ofwat's final determination. If the outcome of Ofwat's price determination is less favourable to the Company than the submitted Business Plan, the directors will implement measures to reduce capital and operating expenditure with a view to minimising expenditure in the short-term and achieving stability in the long term.

After considering these matters, the existing cash resources, and unutilised committed borrowing facilities of £31m as highlighted in note 14, the directors of the Company continue to adopt the going concern basis for preparing the financial statements.

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

Stephen Robson
Company Secretary
14 July 2014

REMUNERATION COMMITTEE REPORT

Introduction

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

The Board has reviewed the Company's compliance with the Corporate Governance Code 2012 ("the Code") on remuneration related matters. It is the opinion of the Board that the Company complied with all remuneration related aspects of the Code during the year.

This Remuneration Committee report will be put to shareholders for approval at the Annual General Meeting.

Key matters

The year under review has been one of significant achievement for the Company, delivering on its AMP5 goals for our customers and building towards the next AMP with the PR14 process.

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

The Committee has, with full shareholder support, finalised the terms and conditions attaching to a Long Term Incentive Plan ("LTIP") for the executive directors covering the current AMP5 and looking ahead to AMP6. A mix of performance targets, which align the delivery of safe, excellent quality water and service for our customers with our other business aims, was set after detailed consultation with the Board and having regard to the longer-term targets and objectives reflected in the business plans for each AMP period, which are approved by Ofwat. The LTIP is designed to assist in the retention of a high-performing management team. Total Shareholder Return ("TSR") and Earnings per Share were not considered to be suitable target mechanisms as the Company is privately owned, and so the Committee designed a tailored series of measures to incentivise performance on customer service, the successful and safe delivery of AMP5 objectives for customers, financial performance and AMP6 strategy.

During the year Miquel Anglada, the Finance Director on secondment from our shareholder Agbar, resigned from his position after receiving a well-earned promotion within the Agbar group. Recognising that such a change was probable in the future, the Board recruited Mick Axtell as the Deputy Finance Director, allowing for a period of handover before he was appointed to the Board as Finance Director in January 2014.

A salary review conducted during the year resulted in an increase of 2.5% in April 2013 for all employees including the executive directors. The Committee gave extensive consideration to the objectives and targets of the Company's Annual Bonus Scheme, in which all employees participate. In the case of the executive directors' bonuses the Committee reviewed the proposed outcomes, and particularly the elements based on personal performance. The Chief Executive earned a bonus of 29% of salary and the other executive directors earned, on average, a bonus of 27% of salary. The Committee determined that this level of bonus was appropriate, reflecting strong performance against key strategic objectives during the year.

The Committee's priority in this next year will be to look at the design of the annual bonus and LTIP schemes for AMP6 in order that they be aligned with the strategy and long-term sustainable success of the business as well as with the new regulatory challenges.

REMUNERATION COMMITTEE REPORT (continued)

Role and composition of the Remuneration Committee

The Committee makes recommendations to the Board both on the overall remuneration policy and levels for the Company's employees, and on the remuneration and other employment conditions of the executive directors and senior executives of the Company.

The membership of the Committee during the year comprised:

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

Attendances at Committee meetings are set out on page 55 in the Corporate Governance Report.

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

In deciding appropriate levels of executive remuneration, the Committee uses external research from independent remuneration consultants when appropriate to obtain up-to-date information on a comparator group of companies. When Mr Axtell was appointed to the position of Finance Director, the Committee took advice from an independent professional recruitment agency to determine an appropriate level of remuneration for his role.

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

Executive remuneration policy

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

REMUNERATION COMMITTEE REPORT (continued)

Executive remuneration policy (continued)

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

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2012/13
Salary	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Factors taken into account when determining basic annual salary levels are objective research, the individual executive director's performance during the year and pay and conditions throughout the Company. Salaries are reviewed at the discretion of the Committee and are not subject to formal annual review.	Base salary increases are applied in line with the outcome of any reviews conducted by the Committee.	No
Annual bonus	Drives and rewards performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy.	Based on the achievement of three balanced elements: customer service, financial targets and capital programme delivery targets; and an overall assessment of personal performance and achievement of individual objectives. The same business objective targets are applied to all staff who receive bonuses. The customer service targets are set around measurable outcomes which we believe are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the Ofwat customer service measure, the SIM. Bonus scheme targets are set annually.	Maximum of 30% of base salary (save in exceptional circumstances).	No
LTIP	Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives. Align longer-term executive directors' interests with those of customers, long-term shareholders and other stakeholders.	The LTIP is based not upon TSR but upon long-term strategic goals of the Company, including customer outcomes. The LTIP award calculation benefit is based on one third of the final base salary at 31 March 2015, the number of years for benefit accrual, and the percentage achievement of the performance conditions of the scheme. Payments are to be made in two equal instalments on 30 June 2015 and 30 June 2016 and executives must remain with the Company in principle for the entire period to 30 June 2016 to be eligible for the full benefit.	As disclosed below.	Yes: new in 2013/14.
Pension	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Pension contributions are made to personal or the Company stakeholder schemes at a specified percentage of basic salary.	N/A	Mr García joined the Company stakeholder scheme during the year owing to the auto-enrolment legislation. Policy remains consistent with prior year.
Benefits	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Reflecting market practice and comprising the provision of a company car and private medical insurance. Some expatriate benefits provided to Messrs García and Anglada are not borne by the Company. The expatriate benefits include their free furnished accommodation, utilities, tax advice and private school/nursery fees where appropriate.	N/A	No

REMUNERATION COMMITTEE REPORT (continued)

Long-term incentive and share option schemes

As already stated in this report, the Company has in the year under review finalised the terms and conditions attaching to an LTIP scheme for the executive directors.

There is no share option scheme in place.

Service contracts

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

	Contract date	Notice period	Unexpired term
L García	23 April 2009	1 year	rolling 1 year
M Axtell	1 January 2014	1 year	rolling 1 year
M King	1 April 2011	1 year	rolling 1 year
M Anglada*	N/A	N/A	N/A

* Mr Anglada resigned as Finance Director on 30 January 2014. He was on a secondment arrangement from the Agbar Group and had no employment contract with the Company.

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

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

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

Non-executive directors

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

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

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

Remuneration policy for new appointees to the executive team

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

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

REMUNERATION COMMITTEE REPORT (continued)

Implementation of remuneration policy in 2013/14

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

Single total figure for remuneration of executive directors for 2013/14 (audited)

	L García		M Axtell[1]		M Anglada[2]		M King	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
				£'000				
Salary/fees	189	185	20	-	90	118	110	109
Bonus	54	58	5	-	23	37	30	33
Benefits	9	9	3	-	10	7	3	1
Pension	6	-	1	-	-	-	7	6
Single Figure pre-LTIP	258	252	29	-	123	162	150	149
Change since 2013	*2.4%*		*N/A* [1]		*N/A* [2]		*0.7%*	
LTIP[3,4]	48	-	2	-	17	-	11	-
Single Figure[5]	**306**	**252**	**31**	**-**	**140**	**162**	**161**	**149**

1 Appointed as the Finance Director on 30 January 2014; figures in the table show only remuneration payable to Mr Axtell since his appointment to the Board.
2 Resigned as the Finance Director on 30 January 2014, and accordingly the remuneration in the above table reflects his ten months' service in 2013/14 only.
3 As further detailed on page 67, during the year the Company finalised an LTIP for senior executives.
4 The figures disclosed as LTIP represent the benefit earned from performance measures which were fully met during the year and have no component dependent on future years' performance, and in some cases relate to a number of past years' service. These figures differ from the expenses recorded in the Profit and Loss Account, which represent a prudent estimate by management of the value of awards accrued in respect of the LTIP at 31 March 2014.
5 The Chief Executive single figure for 2013/14 includes £48,191 (2012/13: £nil) in relation to the LTIP, of which £28,915 relates to his past years' service.

Bonus includes amounts accrued and approved, but not paid as at 31 March 2014 and relates to the period served as a director.

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

REMUNERATION COMMITTEE REPORT (continued)

Implementation of remuneration policy in 2013/14 (continued)

Single total figure for remuneration of non-executive directors for 2013/14 (audited)

	2013/14	2012/13
	Salary/fees £'000	
K Ludeman[1]	73	58
J M Woolley[2]	-	26
P McIlwraith	42	40
C Curling	39	38
R Davis	34	33
M Bernstein[3]	-	-
M Smerdon[3]	-	-
J Bittan[3]	-	-
A Harding[3]	-	-
P Bourdillon[3]	-	-
H Ichishi[3, 4]	-	-
S Miller[3, 5]	-	-
Single Figure	**188**	**195**

1 Appointed as Chairman on 26 July 2012.
2 Resigned as Chairman on 26 July 2012.
3 No remuneration has been paid by the Company.
4 Appointed as a non-executive director on 10 May 2012.
5 Resigned as director on 10 May 2012.

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

The remuneration policy for the financial year was approved by the Committee on 25 July 2013.

Salary (audited)

A salary review conducted by the Committee during 2013/14 resulted in an increase in base salary of 2.50% from April 2013 for all employees. All executive directors, including the Chief Executive, received the same level of increase in their base salaries as all other employees (2012/13: all staff: 3.75% base salary increase; Chief Executive: 18.59% base salary increase).

The proportion of base salary awarded to the Chief Executive as annual bonus for 2013/14 fell by 8.87% compared with the prior year (2012/13: increase of 48.21%). The proportion of base salary awarded to all other staff as annual bonus for the same period fell 3.56% (2012/13: increase of 12.82%).

Benefits, including benefits in kind, payable to the Chief Executive remained constant compared with the prior year (2012/13: increased by £274). Benefits payable to all other eligible staff have remained constant compared with the prior year (2012/13: constant).

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

Implementation of remuneration policy in 2013/14 (continued)

Annual bonus for 2013/14 (audited)

The Company operates an Annual Bonus Scheme for all its employees, the objectives and targets of which are agreed by the Committee each year in relation to all categories of employees. Different weightings are applied to these objectives for different categories of employees. At more senior levels the Scheme also includes elements based on personal performance.

In respect of the year under review the Company's achievement of its customer and financial performance targets was determined to be 92%. This resulted in an average bonus payment of £944 per person (2012/13: £858 per person) to all employees whose bonus objectives did not include personal performance elements.

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

The weighting of the customer service and financial performance measures in the calculation of an executive director's bonus is detailed below:

Component	Description	Target	Weighting	Achieved in year	Performance achieved
EBITDA	Financial measure indicating profitability of the Company during the year	Meet performance targets set in budget as agreed with the Board	33%	97%	32%
Capital expenditure	Balance of measures about capital delivery to time and to budget	Targets set by Board regarding individual scheme delivery, overall programme delivery and efficiency	33%	73%	24%
Water quality	Measures of quality of water supplied to customers, determined by scientific testing and benchmarked against industry levels.	Meet targets set by the Board	8%	100%	8%
Discoloured water complaints		Meet target set by the Board	8%	77%	6%
Leakage target	Measure of the efficient use of resources by the Company in achieving environmental sustainability	Meet targets set by Ofwat, i.e. 49Ml/d	6%	100%	6%
Customer minutes lost	Measure of reliability of supply recording how long, on average, customers were without a water supply	Meet targets set by the Board using Ofwat measures	6%	100%	6%
SIM	Measure of customer satisfaction implemented by Ofwat	Meet targets set by the Board using Ofwat measures	6%	25%	2%
			100%		84%

In the year under review the weightings for the senior executives applied to these objectives resulted in an outcome of 84% of the Board's agreed performance targets.

To calculate the level of bonus payable to an individual executive director, a multiple is applied to the Company performance outcome reflecting the individual's performance against their personal objectives and an overall assessment of individual performance in the year. The personal objectives set for each executive director comprised elements ensuring that the business maintained its service provision and based on required performance in the PR14 regulatory process, together with some specific personal objectives fitting the nature of the individual's role. These personal elements are subject to careful moderation to ensure consistency of application.

REMUNERATION COMMITTEE REPORT (continued)

Implementation of Remuneration Policy in 2013/14 (continued)

Annual bonus for 2013/14 (audited) (continued)

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

L García	96% of bonus entitlement, i.e. 29% of base salary
M Axtell	84% of bonus entitlement, i.e. 25% of base salary earned since appointment to the Board
M King	93% of bonus entitlement, i.e. 28% of base salary

The Committee determined that this level of bonus was appropriate, reflecting strong performance against key strategic objectives during the year.

Benefits (audited)

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

LTIP (audited)

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

AMP 5 – Customer Service and Operational performance		
SIM score	15%	
Health and Safety	10%	
		25%
AMP 5 – Financial performance		
AMP 5 financial performance (adjusted EBITDA)	15%	
Capital expenditure	10%	
Dividend return	10%	
		35%
AMP 5 – Total		**60%**

The remaining elements of the LTIP are linked to the PR14 process, which is currently in progress, and are therefore commercially sensitive. These performance measures were agreed with the equity shareholders prior to the implementation of the LTIP.

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

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

	Total number of years for benefit accrual	Number of years accrued at 31 March 2014
L García, *Chief Executive*	5	4
M Axtell, *Finance Director (appointed on 30 January 2014)*	1.25	0.25
M Anglada, *Finance Director (resigned on 30 January 2014)*	3	3
M King, *Regulatory Director*	2	1

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

REMUNERATION COMMITTEE REPORT (continued)

Implementation of Remuneration Policy in 2013/14 (continued)

Pension arrangements (audited)

At 31 March 2014, no director was accruing benefits under the Company's defined benefit pension scheme.

At 31 March 2014, Mr García was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme for the financial year was £5,642.

At 31 March 2014, Mr Axtell was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme from 30 January 2014, his date of appointment as a director, to 31 March 2014, was £1,255.

Mr King has not joined the Company designated stakeholder pension scheme; however, the Company is making contributions to a private pension scheme on his behalf. The Company's contributions to the private pension scheme for him in respect of the financial year amounted to £6,572.

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.

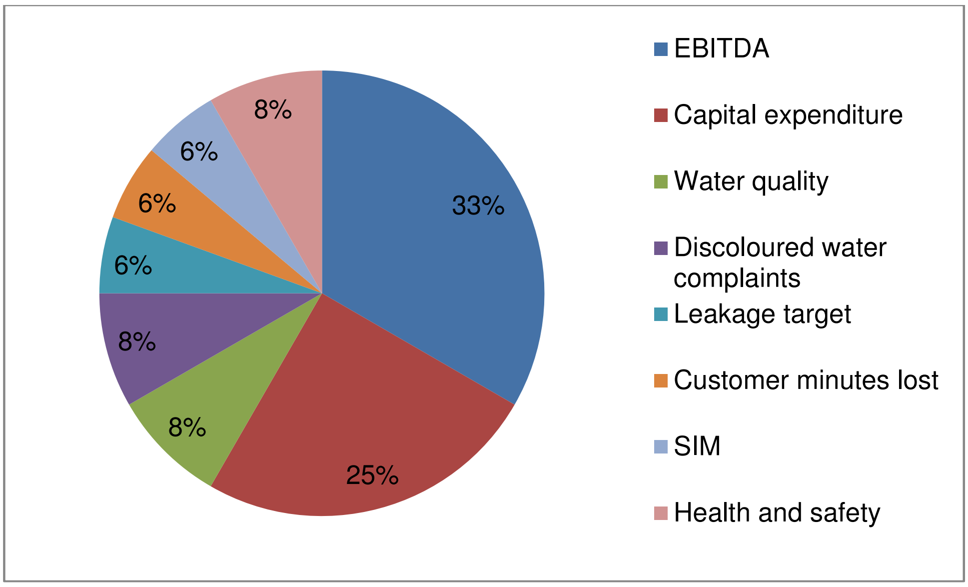
Interests in shares (audited)

During the year ended 31 March 2014 none of the directors had any interest in the shares of the Company.

How the remuneration policy will be applied in 2014/15

The same remuneration policy will be applied as in the year under review, except that the Committee has made adjustments to the objectives in some components of the bonus scheme set out in the table on page 73 and has added a Health and Safety objective. These changes bring the scheme targets in line with the Company's business outcomes described on pages 13 and 14 in the Strategic Report. The Committee has also adjusted the bonus scheme targets to ensure appropriate stretch, having regard in all cases to the business performance targets set by the Board and consistent with required AMP5 outcomes.

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



REMUNERATION COMMITTEE REPORT (continued)

How the remuneration policy will be applied in 2014/15 (continued)

Based upon this policy, the minimum, expected and maximum total remuneration of the executive directors for 2014/15 is shown in the charts on the following pages.

The maximum scenario described below is included to comply with the disclosure requirements introduced by the BIS in respect of directors' remuneration. It is the opinion of the Committee that the maximum level is highly unlikely to be reached given the stretching nature of the targets set.

In respect of the LTIP included in the charts on the following pages, the expected and maximum scenarios include:

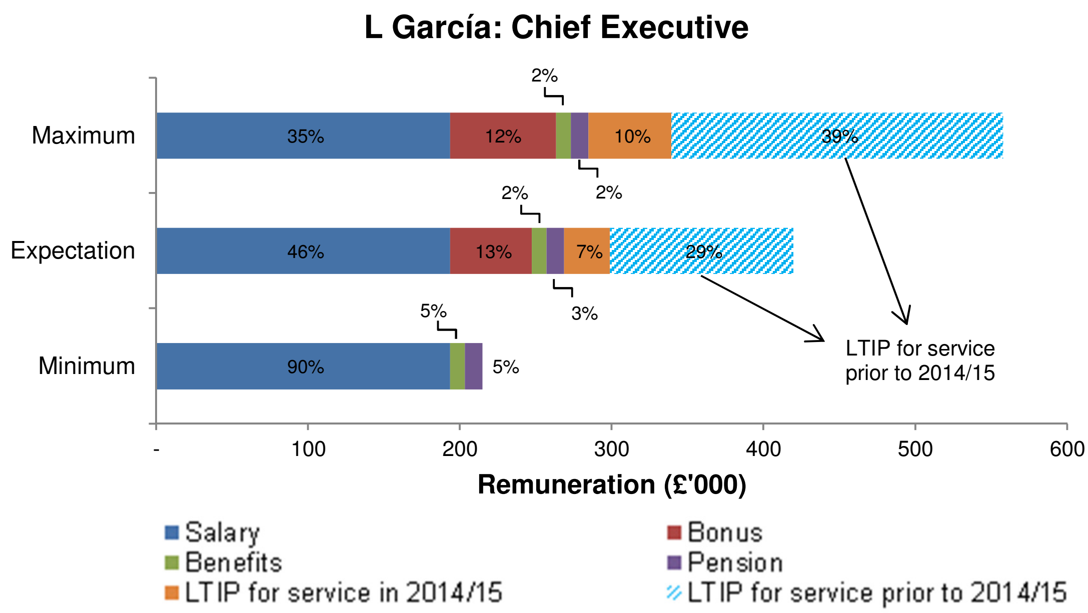
- assumed amounts for the LTIP which relate to a number of past years' service, which are shaded with blue lines in the charts on the following pages; and
- assumed amounts for the LTIP which relate to service in respect of financial year 2014/15, which are shaded in amber in the charts on the following pages.

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

The expected award represents the current estimate of the level of remuneration which the executive directors can expect to receive, including:

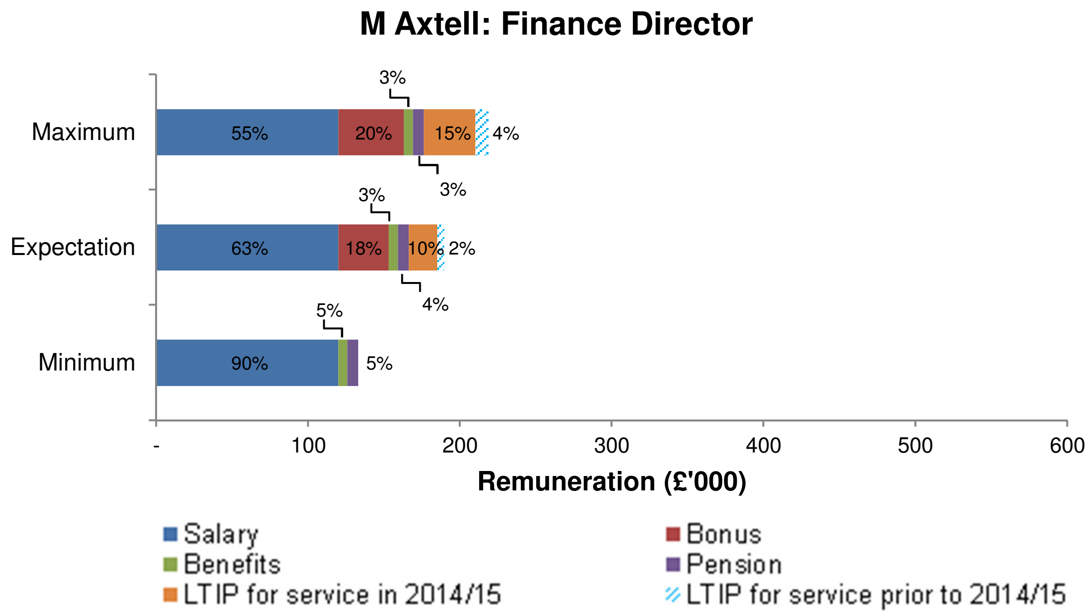
- performance-related incentives, based upon an assessment of the Company's current performance against its long-term objectives;
- an expectation that each director's level of achievement against their personal objectives will be in line with that achieved in the financial year 2013/14; and
- management's current estimate in respect of the remaining LTIP performance measures. These are due for final assessment in 2014/15, with performance against the remaining criteria currently forecast to be 62%.

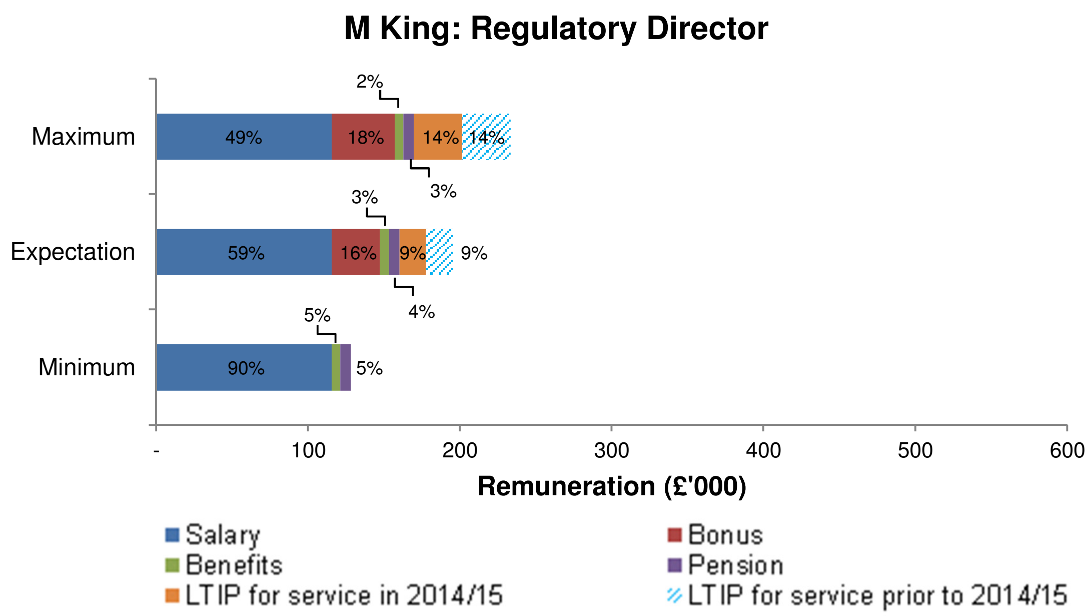
The maximum award represents the maximum total package which may be earned by each director assuming that all the Company and individual performance targets relating to bonus and LTIP awards are achieved in their entirety. In such exceptional circumstances, the executive directors are entitled to 120%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



REMUNERATION COMMITTEE REPORT (continued)

How the remuneration policy will be applied in 2014/15 (continued)





Historic Chief Executive remuneration

The following table shows the total remuneration payable by the Company to Luis García, the Chief Executive, in respect of service for the five year period from 1 April 2010 to 31 March 2014.

REMUNERATION COMMITTEE REPORT (continued)

Historic Chief Executive remuneration (continued)

	Year ended 31 March:				
Figures in £'000 where applicable	**2010**	**2011**	**2012**	**2013**	**2014**
Base salary	113	149	156	185	189
Bonus					
Bonus	26	43	33	58	54
Bonus as proportion of salary	*23%*	*29%*	*21%*	*31%*	*29%*
Maximum bonus achievable (of base salary)	*30%*	*36%*	*36%*	*36%*	*36%*
Proportion of maximum bonus achieved	*77%*	*80%*	*59%*	*87%*	*79%*
LTIP earned*	-	-	-	-	48
Benefits	-	8	8	9	9
Pension	-	-	-	-	6
Total remuneration	139	200	197	252	306

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

Importance of pay

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

	Year ended 31 March 2014 £m	**Year ended 31 March 2013 £m**
EBITDA	66.5	61.7
PBT	14.5	15.4
Payments to shareholders:		
Dividends	13.2	14.7
Payments to employees:		
Wages and salaries	15.7	14.7
Including directors	16.5	15.5

Shareholder and employee input in setting remuneration policy

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

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

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

Chris Curling
Chairman of Remuneration Committee
14 July 2014

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2014

	Note	2014	2013
		£m	£m
Turnover	**2**	**123.9**	114.2
Operating costs	**3**	**(96.0)**	(87.3)
Operating profit		**27.9**	26.9
Loss on disposal of tangible assets		**(0.6)**	-
Other net interest payable and similar charges	**4**	**(11.7)**	(10.4)
Dividends on 8.75% irredeemable cumulative preference shares	**4**	**(1.1)**	(1.1)
Net interest payable and similar charges		**(12.8)**	(11.5)
Profit on ordinary activities before tax		**14.5**	15.4
Tax on profit on ordinary activities	**5**	**2.6**	(2.3)
Profit for the financial year		**17.1**	13.1
Earnings per ordinary share	**6**	**285.1p**	218.4p
Dividends per ordinary share			
- paid during the year	**21**	**220.2p**	245.3p

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

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Profit for the financial year		**17.1**	13.1
Actuarial (losses)/gains recognised in respect of retirement benefit obligations	**23**	**(3.0)**	0.6
Attributable deferred taxation	**18**	**1.0**	-
Change in the fair value of the interest rate swap	**17**	**0.8**	(0.2)
Attributable deferred taxation	**18**	**(0.2)**	-
Total recognised gains for the year		**15.7**	13.5

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 March 2014

	Note	2014	2013
		£m	£m
Profit for the financial year		**17.1**	13.1
Other (losses)/gains recognised during the year (net)		**(1.4)**	0.4
Equity dividends paid	**21**	**(13.2)**	(14.7)
Increase/(decrease) in shareholders' funds during the year		**2.5**	(1.2)
Shareholders' funds at 1 April		**89.3**	90.5
Shareholders' funds at 31 March		**91.8**	89.3

BALANCE SHEET
at 31 March 2014

	Note	2014 £m	2013 £m
Tangible assets	7	**345.9**	313.7
Other investments - Loans to group undertakings	8	**68.5**	68.5
Current assets			
Stocks	9	**1.3**	1.3
Debtors	10	**31.9**	29.3
Cash on deposit	11	**2.0**	9.5
Cash at bank and in hand		**10.7**	3.2
		45.9	43.3
Creditors: amounts falling due within one year			
Current portion of long-term borrowings	12	**(0.4)**	(2.2)
Other creditors	13	**(42.9)**	(46.0)
		(43.3)	(48.2)
Net current assets/(liabilities)		**2.6**	(4.9)
Total assets less current liabilities		**417.0**	377.3
Creditors: amounts falling due after more than one year	14	**(292.1)**	(250.9)
8.75% irredeemable cumulative preference shares	14	**(12.5)**	(12.5)
Provisions for liabilities	18	**(21.3)**	(26.0)
Deferred income	15	**(8.3)**	(8.8)
Net assets excluding retirement benefit surplus		**82.8**	79.1
Retirement benefit surplus	23	**9.0**	10.2
Net assets including retirement benefit surplus		**91.8**	89.3
Capital and reserves			
Called-up share capital	19	**6.0**	6.0
Share premium account	20	**4.4**	4.4
Other reserves	20	**4.8**	4.2
Profit and loss account	20	**76.6**	74.7
Total shareholders' funds	20	**91.8**	89.3

The financial statements of Bristol Water plc, registered number 2662226 on pages 79 to 117, were approved by the Board of Directors on 10 July 2014 and signed on its behalf by:

Luis García, Director

Mick Axtell, Director

CASH FLOW STATEMENT
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Net cash inflow from operating activities	**24(a)**	**66.4**	59.4
Returns on investments and servicing of finance			
Interest received		**4.1**	4.5
Interest paid on term loans and debentures		**(10.7)**	(10.0)
Interest paid on finance leases		**(0.1)**	-
Dividends paid on 8.75% irredeemable cumulative preference shares		**(1.1)**	(1.1)
		(7.8)	(6.6)
Taxation			
Corporation tax paid		**(1.2)**	(0.7)
Capital expenditure and financial investment			
Purchase of tangible assets		**(83.8)**	(83.8)
Contributions received		**4.0**	3.9
Proceeds from disposal of tangible assets		**0.1**	0.1
Decrease in cash deposits maturing after three months from the balance sheet date	**11**	**-**	20.3
		(79.7)	(59.5)
Equity dividends paid	**21**	**(13.2)**	(14.7)
Cash outflow before management of liquid resources and financing		**(35.5)**	(22.1)
Management of liquid resources being decrease in liquid resources	**11**	**7.5**	34.7
Financing			
New bank loans net of issue costs		**51.6**	1.0
Capital element of lease repayments		**(2.1)**	(3.2)
Repayments of long-term debt		**(14.0)**	(15.0)
		35.5	(17.2)
Increase/(decrease) in cash in the year	**24(b)**	**7.5**	(4.6)
Cash, beginning of year		**3.2**	7.8
Cash, end of year		**10.7**	3.2

NOTES TO THE FINANICAL STATEMENTS

1. ACCOUNTING POLICIES

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

(a) **Accounting convention**

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

In relation to the future of financial reporting in the UK, the Company has the following three accounting framework options available:

- FRS 100 'Application of Financial Reporting Requirements';
- FRS 101 'Reduced Disclosure Framework' (under EU IFRS); and
- FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

All the parent groups, namely Capstone, Agbar and Itochu report under IFRS, thus the parallel accounting records are already maintained under IFRS for group reporting purposes. Therefore, the ARAC has proposed to adopt FRS101, which follows substantially the same accounting principles as full IFRS, with reduced disclosure requirements compared to full IFRS financial statements.

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

The Company has not adopted the above for its financial statements for the year ended 31 March 2014, and has no current plans to do so before the proposed effective date.

(b) **Going concern**

As detailed in the Corporate Governance Report on page 66, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

(c) **Turnover**

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

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

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

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

1. ACCOUNTING POLICIES (continued)

(d) **Tangible assets and depreciation**

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

Infrastructure assets

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

Other assets

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

Depreciation

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

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

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

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

Assets under construction are not depreciated.

Impairment

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

1. ACCOUNTING POLICIES (continued)

(e) Grants and contributions

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

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

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

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

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

(f) Pension costs

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

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. The increase in the present value of the liabilities of the Company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, is included in net interest payable and similar charges.

Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account. Losses are measured at the date that the Company becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

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

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

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

(g) Research and development

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

1. ACCOUNTING POLICIES (continued)

(h) **Distributions to shareholders**

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

(i) **Leased assets**

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

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

(j) **Taxation**

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

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

(k) **Cash on deposit**

Cash on deposit represents short-term deposits having maturity up to one year from the balance sheet date. Cash deposits maturing up to three months from the balance sheet date are considered as liquid resources for the purposes of the Cash Flow statement.

(l) **Stocks**

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

1. ACCOUNTING POLICIES (continued)

(m) **Financial instruments**

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

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

(n) **Hedge accounting**

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

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

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

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting.

(o) **Provisions**

A provision is recognised when the Company has a legal or constructive obligation as a result of past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money, except in case of deferred tax as mentioned in sub-note (j) above, is not material and therefore the provisions are not discounted.

2. TURNOVER

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

3. OPERATING COSTS

(a) Operating costs includes -

	2014	2013
	£m	£m
Consumables	**2.6**	2.6
Wages and salaries	**16.5**	15.5
Social security costs	**1.5**	1.4
Other pension costs	**2.8**	2.4
Total payroll cost	**20.8**	19.3
Less capitalised as tangible assets	**(8.6)**	(7.7)
Net payroll cost	**12.2**	11.6
Depreciation of tangible assets (note 7)		
On owned assets	**38.1**	34.2
On leased assets	**1.0**	1.1
Amortisation of related deferred income (note 15)	**(0.5)**	(0.5)
Other operating charges		
Research and development expenditure	**0.1**	0.1
Auditors' remuneration	**0.1**	0.1
Other charges less recoveries	**42.4**	38.1
Total operating costs	**96.0**	87.3

(b) Employee details -

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

	2014	2013
	No.	No.
Water treatment and distribution	**273**	262
Support services	**105**	93
Administration	**74**	72
Non-appointed activities	**37**	36
	489	463

(c) Directors' emoluments -

	2014	2013
	£m	£m
Aggregate emoluments of directors, being remuneration, bonus, pension, LTIP and benefits in kind	**0.8**	0.8

The highest paid director during the year was Mr García; full details of his, and all other directors' emoluments, are disclosed in the Remuneration Committee Report on pages 71 to 75.

3. OPERATING COSTS (continued)

(d) Independent auditors' remuneration

The auditors' remuneration comprised:	**2014 £'000**	2013 £'000
Fees payable for the audit of the Company's annual statutory financial statements	**47**	46
Fees payable for the review of the Company's interim financial statements	**8**	8
Services pursuant to legislation, principally related to regulatory accounts and returns	**32**	32
Fees payable is respect of agreed upon procedures work for our PR14 submission	**65**	-
Fees payable is respect of advice on future changes to the UK GAAP	**12**	-
Fees payable is respect of pension scheme review	**3**	3
Total non-audit fees	**120**	43

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

		2014		2013	
		£m	**£m**	£m	£m
Interest payable and similar charges relate to:					
Bank borrowings			**1.5**		1.0
Term loans and debentures	- interest charges		**9.2**		9.0
	- indexation and amortisation of fees and premium on loans		**4.8**		4.8
Finance leases*			**0.1**		(0.1)
			15.6		14.7
Dividends on 8.75% irredeemable cumulative preference shares			**1.1**		1.1
Net interest charge in respect of retirement benefit scheme			**0.2**		-
Interest payable and similar charges			**16.9**		15.8
Less interest receivable and similar income					
Loan to Bristol Water Holdings UK Limited - interest receivable		**(4.0)**		(4.0)	
Other external investments and deposits		**(0.1)**		(0.3)	
Interest receivable and similar income			**(4.1)**		(4.3)
Net interest payable and similar charges			**12.8**		11.5

Dividends on the 8.75% irredeemable cumulative preference shares are payable at a fixed rate of 4.375% on 1 April and 1 October each year. Payment by the Company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with FRS 25.

* The amount for the prior year was a net gain due to a rebate per the lease agreement received last year.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014 £m	2013 £m
(a) **Analysis of charge for the year, all arising in the United Kingdom**:		
Current tax:		
Corporation tax at 23% (2012/13: 24%) (note 5(b))	**2.3**	2.2
Adjustment to tax in respect of prior years	**(0.1)**	(1.4)
	2.2	0.8
Deferred tax (note 18):		
Origination and reversal of timing differences	**1.2**	1.8
Effect of corporation tax rate change	**(5.0)**	(1.5)
Adjustment to prior years	**0.1**	1.1
	(3.7)	1.4
Effect of discounting	**(1.1)**	0.1
	(4.8)	1.5
Tax on profit on ordinary activities	**(2.6)**	2.3

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

During the year, the government enacted a reduction in corporation tax rates from 23% to 20% (2012/13: 24% to 23%). This will progressively reduce the rate to 21% and 20% for financial years 2014/15 and 2015/16 respectively. The beneficial effect of this change in legislation is £5.0m (2012/13: £1.5m) on an undiscounted basis and £3.7m (2012/13: £1.0m) on a discounted basis. A further £0.3m (2012/13: £0.1m) is credited to the STRGL in respect of the deferred tax on pension and swap movements.

Discounting rates increased during the financial year (2012/13: decreased). If the balances at the end of the previous financial period had been valued using the current closing discount rates there would have been a decrease in the overall discounted deferred tax charge of £1.7m (2012/13: increase of £0.8m). This decrease is recognised within the effect of discounting in the current period.

Advance Corporation Tax (ACT) is recognised as an asset to the extent that it is foreseen to be recoverable in the next 12 months. There is £3.9m (2012/13: £3.9m) of unrecognised ACT carried forward at 31 March 2014.

The Company also holds £2.9m (2012/13: £2.9m) of unrecognised capital losses, which are available to offset against any future capital gains.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) **Reconciliation of the current tax charge**

The current tax rate for the year is lower (2012/13: lower) than the standard rate of Corporation Tax in the United Kingdom of 23% (2012/13: 24%). The differences are explained below:

	2014	**2013**
	£m	**£m**
Profit on ordinary activities before taxation	**14.5**	15.4
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 23% (2012/13: 24%)	**3.3**	3.7
Effects of:		
Expenses including 8.75% irredeemable cumulative preference share dividends not deductible for tax	**0.3**	0.3
Capital allowances in excess of depreciation	**(1.0)**	(1.4)
Additional retirement benefit contributions	**(0.2)**	(0.2)
Long-term timing differences	**(0.1)**	(0.1)
Short-term timing differences	**-**	(0.1)
	2.3	2.2
Adjustment to tax in respect of prior years	**(0.1)**	(1.4)
Total current tax charge (note 5(a))	**2.2**	0.8

6. EARNINGS PER ORDINARY SHARE

	2014	2013
	m	m
Basic earnings per ordinary share have been calculated as follows -		
Average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	**£17.1**	£13.1
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.

7. TANGIBLE ASSETS

(a) The movements for the year comprise –

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infra-structure assets £m	Assets under construction £m	Total £m
Cost					
At 1 April 2013	259.6	55.6	320.4	24.6	660.2
Additions	-	-	33.6	42.4	76.0
Capitalisation of completed assets	16.1	6.8	12.5	(35.4)	-
Disposals	(1.8)	(0.5)	-	-	(2.3)
Grants and contributions	-	-	(4.0)	-	(4.0)
At 31 March 2014	**273.9**	**61.9**	**362.5**	**31.6**	**729.9**
Accumulated Depreciation					
At 1 April 2013	110.1	38.4	198.0	-	346.5
Charge for year	8.7	4.6	25.8	-	39.1
Disposals	(1.2)	(0.4)	-	-	(1.6)
At 31 March 2014	**117.6**	**42.6**	**223.8**	**-**	**384.0**
Net book value at 31 March 2014	**156.3**	**19.3**	**138.7**	**31.6**	**345.9**
At 31 March 2013	149.5	17.2	122.4	24.6	313.7

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

(b) Included above at 31 March 2014 is freehold land, not subjected to depreciation in the year, of £1.7m (2012/13: £1.6m).

(c) Included above at 31 March 2014 are tangible assets held under finance leases analysed by asset type as follows:

	Freehold land operational, properties and structures £m	Plant and equipment £m	Infra-structure Assets £m	Total £m
At 31 March 2014				
Cost	36.3	5.5	1.2	43.0
Accumulated depreciation	(27.2)	(5.5)	-	(32.7)
Net book value	9.1	-	1.2	10.3
At 31 March 2013				
Cost	37.3	5.5	1.2	44.0
Accumulated depreciation	(27.1)	(5.5)	-	(32.6)
Net book value	10.2	-	1.2	11.4

(d) The net book value of infrastructure assets is stated after the deduction of contributions of £69.9m (2012/13: £65.9m) as explained in note 1(e).

8. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

	£m
Balance at 31 March 2014 and 31 March 2013	**68.5**

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

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

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

9. STOCKS

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

10. DEBTORS

Debtors comprise:

	2014 £m	2013 £m
Trade debtors (a)	**28.8**	26.2
Less bad debt provision (a)	**(15.3)**	(14.3)
	13.5	11.9
Amounts owed by group and associated companies (b)	**1.4**	1.4
Other debtors	**3.1**	2.5
Prepayments and accrued income	**13.9**	13.5
	31.9	29.3

(a) Trade debtors are aged as:

	2014 £m	2013 £m
Past due by 0-30 days	**0.1**	1.0
Past due by 31-120 days	**3.9**	3.0
Past due by more than 120 days	**9.5**	7.9
	13.5	11.9

Bad debt provision:

	2014 £m	2013 £m
At 1 April	**14.3**	13.6
Provision for trade debtors impairment	**3.5**	3.2
Trade debtors written off during the year as uncollectible	**(2.5)**	(2.5)
At 31 March	**15.3**	14.3

(b) The sum of £0.4m (2012/13: £0.4m) is included within the heading "Due from group and associated companies" in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited, a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

11. CASH ON DEPOSIT

	2014 £m	2013 £m
Cash on deposit maturing up to three months from the balance sheet date	**2.0**	9.5
	2.0	9.5

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

12. CREDITORS – BORROWINGS FALLING DUE WITHIN ONE YEAR

	2014 £m	2013 £m
Finance leases	**0.4**	2.2
	0.4	2.2

These borrowings are secured as described in note 14.

13. CREDITORS – OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise:

	2014 £m	2013 £m
Receipts in advance	**12.3**	12.0
Trade creditors	**15.7**	22.7
Amounts owed to associates	**1.0**	1.2
Other taxation and social security	**0.8**	0.7
Corporation tax payable	**1.3**	0.3
Payments received on account	**1.5**	0.8
Accruals and other liabilities	**10.3**	8.3
	42.9	46.0

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

	2014 £m	2013 £m
Bank and other term loans – secured	**284.1**	241.2
Debentures	**1.6**	1.6
Finance leases – secured	**2.5**	2.8
Net unamortised premiums arising on issue of term loans	**2.7**	3.3
Total excluding 8.75% irredeemable cumulative preference shares and interest rate swap	**290.9**	248.9
Interest rate swap	**1.2**	2.0
	292.1	250.9
8.75% irredeemable cumulative preference shares	**12.5**	12.5
Total	**304.6**	263.4

The 8.75% irredeemable cumulative preference shares, which do not normally carry any voting rights, were issued in 1992 at £1 per share. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. In accordance with FRS 25 the shares are classified as long-term debt.

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. Of these, 12,500,000 have been issued and are fully paid (31 March 2013: 12,500,000).

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

The movements in net unamortised premiums were as follows:

	2014	2013
	£m	£m
Net unamortised premiums at 1 April	**3.3**	3.4
Amortised during the year	**(0.4)**	(0.1)
Loan issue costs on loans drawn during the year	**(0.2)**	-
Net unamortised premiums at 31 March	**2.7**	3.3

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

	2014	2013
	£m	£m
Within one year	**-**	0.2
Between one and two years	**-**	0.2
Between two and five years	**0.4**	0.5
After five years	**2.3**	2.4
	2.7	3.3

Security for borrowings

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

In respect of the Company:

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

- a floating charge over the whole of its undertaking.

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

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

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

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

Net borrowings and maturities

At 31 March 2014 net borrowings comprise -

	Term loans less cash £m	Finance leases £m	Debentures and irredeemable preference shares £m	Interest rate swap £m	**Total 2014 £m**	Total 2013 £m
Repayment due:						
Between one and two years						
Finance leases	-	0.3	-	-	**0.3**	0.3
Between two and five years						
Finance leases	-	1.2	-	-	**1.2**	1.0
Repayable 2017, variable interest at six month LIBOR plus a margin	10.0	-	-	-	**10.0**	10.0
Repayable 2017, variable interest at three month LIBOR plus a margin	10.0	-	-	-	**10.0**	10.0
Repayable 2017, variable interest at one month LIBOR plus a margin	26.0	-	-	-	**26.0**	1.0
Repayable 2015, variable interest at one month LIBOR plus a margin	13.0	-	-	-	**13.0**	-
After five years:						
- Interest rate swap, exchanging six month LIBOR for a fixed rate of 5.025%	-	-	-	1.2	**1.2**	2.0
- Other than by instalment – Term loans						
Repayable 2032, principal index-linked to RPI, fixed interest at 3.635%*	123.4	-	-	-	**123.4**	119.7
Repayable 2033, fixed interest at 6.01%*	57.5	-	-	-	**57.5**	57.5
Repayable 2041 principal index-linked to RPI, fixed interest at 2.701%	44.2	-	-	-	**44.2**	43.0
- By instalments – Finance leases	-	1.0	-	-	**1.0**	1.5
Net unamortised premiums	2.7	-	-	-	**2.7**	3.3
Debentures (listed on the LSE)						
4.00% Consolidated irredeemable	-	-	1.4	-	**1.4**	1.4
4.25%, 4.00% and 3.50% perpetual irredeemable debentures	-	-	0.2	-	**0.2**	0.2
Total borrowings due after one year excluding 8.75% irredeemable cumulative preference shares	286.8	2.5	1.6	1.2	**292.1**	250.9
Current portion of debt	-	0.4	-	-	**0.4**	2.2
	286.8	2.9	1.6	1.2	**292.5**	253.1
Cash on deposit (note 11)	(2.0)	-	-	-	**(2.0)**	(9.5)
Cash at bank and in hand	(10.7)	-	-	-	**(10.7)**	(3.2)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	274.1	2.9	1.6	1.2	**279.8**	240.4
8.75% irredeemable cumulative preference shares	-	-	12.5	-	**12.5**	12.5
Net borrowings	274.1	2.9	14.1	1.2	**292.3**	252.9

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

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

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2014	2013
	£m	£m
Expiring in August 2015	**7.0**	20.0
Expiring in August 2017	**24.0**	49.0
	31.0	69.0

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

Minimum lease payments under finance leases

Amounts fall due as follows:

	2014	2013
	£m	£m
Within one year	**0.4**	2.2
Between one and two years	**0.3**	0.3
Between two and five years	**1.2**	1.0
After five years	**1.0**	1.5
	2.9	5.0

15. DEFERRED INCOME

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

	2014	2013
	£m	£m
At 1 April 2013	**8.8**	9.3
Less amortised during the financial year	**(0.5)**	(0.5)
At 31 March 2014	**8.3**	8.8

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

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

16. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's main financial instruments comprise:

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

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

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

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

(a) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. Cash and cash deposits have been placed with banks on a rolling basis of up to four months earning interest based on LIBID equivalents. There are also interest-bearing fixed rate loans totaling £68.5m (2012/13: £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 a cash flow hedge of future interest payments, which has the effect of increasing the proportion of fixed interest debt.

The Company's practice is to maintain the majority of its net debt on a fixed or a fixed margin above movements in RPI basis. At the year-end 25%* (2012/13: 28%*) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 82%* (2012/13: 94%) 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.

* A £10m variable interest rate loan, covered by an interest rate swap exchanging LIBOR rates on a six monthly basis for a fixed rate, has been considered as fixed interest rate loan for the calculation of these percentages.

16. FINANCIAL RISK MANAGEMENT (continued)

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

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Company's profits.

The sensitivity analysis includes the effect on all financial instruments exposed to changes in interest rate.

	31 March 2014		31 March 2013	
	Profit before tax £m	**Profit after tax £m**	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	**0.5**	**0.4**	0.1	0.1

Inflation rate sensitivity

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

	2014 £m	2013 £m
Index-linked debt	**167.7**	162.7

The following table shows the illustrative effect on the Company's profits of changes in RPI in relation to its index-linked debt.

	31 March 2014		31 March 2013	
	Profit before tax £m	**Equity £m**	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	**1.7**	**1.3**	1.6	1.2

(c) Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2014 £m	2013 £m
Long-term loans	**68.5**	68.5
Cash on deposit	**2.0**	9.5
Cash at bank and in hand	**10.7**	3.2
Debtors, net of bad debt provisions made	**31.9**	29.3
	113.1	110.5

16. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 80% (2012/13: 90%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

The Company has a £20m facility expiring in August 2015, of which £13m was drawn as at 31 March 2014. The Company also has a £50m facility expiring in August 2017 of which £26m was drawn as at 31 March 2014. Both the facilities are floating rate and incur non-utilisation fees at market rates.

Under the terms of the STID the Company is required to maintain a specified sum in nominated accounts to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £5.5m (2012/13: £5.5m), are therefore not available for other operational use or distribution to shareholders.

The table below details the Company's remaining contractual payments until maturity for its non-derivative financial liabilities. The table is based on the undiscounted cash flows, and includes estimates of future interest payments and loan indexation on financial liabilities.

Year ended 31 March 2014	**Due within one year**	**Between one and two years**	**Between two and five years**	**After five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Trade creditors	**15.9**	**-**	**-**	**-**	**15.9**
Due to group and associated companies	**1.0**	**-**	**-**	**-**	**1.0**
Corporation tax payable	**1.3**	**-**	**-**	**-**	**1.3**
Accruals and deposits received	**11.6**	**-**	**-**	**-**	**11.6**
Interest bearing loans and borrowings	**13.2**	**26.4**	**80.6**	**512.0**	**632.2**
	43.0	**26.4**	**80.6**	**512.0**	**662.0**

16. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Year ended 31 March 2013	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Trade creditors	22.7	-	-	-	22.7
Due to group and associated companies	1.2	-	-	-	1.2
Corporation tax payable	0.3	-	-	-	0.3
Accruals and deposits received	9.1	-	-	-	9.1
Interest bearing loans and borrowings	11.9	10.2	52.6	525.9	600.6
	45.2	10.2	52.6	525.9	633.9

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

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

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

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

16. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Derivative financial instruments and hedge accounting (continued)

Year ended 31 March 2014	**Due within one year**	**Between one and two years**	**Between two and five years**	**After five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Forecast receipts under the interest rate swap	**0.1**	**0.1**	**0.5**	**-**	**0.7**
Contractual payments under the interest rate swap	**(0.5)**	**(0.5)**	**(1.0)**	**-**	**(2.0)**
Net forecast cash outflow	**(0.4)**	**(0.4)**	**(0.5)**	**-**	**(1.3)**

Year ended 31 March 2013	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Forecast receipts under the interest rate swap	0.1	0.1	0.4	-	0.6
Contractual payments under the interest rate swap	(0.5)	(0.5)	(1.5)	-	(2.5)
Net forecast cash outflow	(0.4)	(0.4)	(1.1)	-	(1.9)

(f) Covenants compliance risk

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

17. FINANCIAL INSTRUMENTS

Fair value estimation

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

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

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

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

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

The fair value of the Company's interest rate swap has been calculated by discounting the expected future cash flows by reference to implied future 6 month LIBOR and hence is valued as Level 3 instrument as set out by FRS29.

Interest-rate swap

At 31 March 2014, the Company was party to one interest rate swap which was entered into on 4 March 2008, became effective on 22 October 2008 and will expire on 7 December 2017. The swap is designated against a £10m variable rate bank loan drawn in October 2008. The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025%. In accordance with FRS 26, the liability arising under the swap agreement was recognised in these financial statements, as follows:

Liability:	**2014** **£m**	2013 £m
Due within one year	**-**	-
Due after one year	**1.2**	2.0
	1.2	2.0

In accordance with FRS 26 “Financial Instruments: Recognition and Measurement” the Company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

17. FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and financial liabilities

Although the Company does not intend to trade in any financial instruments, the following tables provide a comparison, by category, of the carrying amounts and the fair value of the Company's financial assets and financial liabilities. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at the Company's current incremental borrowing rates for borrowings of similar types and maturities.

Fair values of non-current financial assets and liabilities

	31 March 2014		31 March 2013	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Primary financial instruments issued to finance the Company				
Long-term borrowings	**(290.9)**	**(350.0)**	(248.9)	(324.6)
8.75% irredeemable cumulative preference shares	**(12.5)**	**(18.2)**	(12.5)	(18.1)
Primary financial instruments issued to finance Bristol Water Holdings UK Limited				
Long-term loans	**68.5**	**68.5**	68.5	82.2
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap	**(1.2)**	**(1.2)**	(2.0)	(2.0)
	(236.1)	**(300.9)**	(194.9)	(262.5)

The movement in the comparison of the fair value of the long-term borrowings to book value is due to fluctuations in long-term interest rates.

Fair values of other financial assets and liabilities

	31 March 2014		31 March 2013	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Cash on deposit	**2.0**	**2.0**	9.5	9.5
Cash at bank and in hand	**10.7**	**10.7**	3.2	3.2
Debtors	**31.9**	**31.9**	29.3	29.3
Financial liabilities				
Current portion of long-term borrowings	**(0.4)**	**(0.4)**	(2.2)	(2.2)
Other creditors	**(42.9)**	**(42.9)**	(46.0)	(46.0)
	1.3	**1.3**	(6.2)	(6.2)

18. PROVISIONS FOR LIABILITIES

	2014 £m	2013 £m
Provision for deferred tax comprises -		
Accelerated capital allowances and capital element of finance leases	**35.0**	39.1
Deferred income	**(0.8)**	(1.1)
Short-term timing differences	**(0.1)**	(0.1)
Retirement benefit obligations	**2.2**	3.1
Interest rate swap	**(0.2)**	(0.4)
	36.1	40.6
Effect of discounting	**(12.6)**	(11.5)
Net provision, including deferred tax on retirement benefit obligations	**23.5**	29.1
Less, attributable to retirement benefit obligations	**(2.2)**	(3.1)
Net provision, excluding deferred tax on retirement benefit obligations	**21.3**	26.0

Deferred tax movement:	**2014 £m**	2013 £m
Provision at 1 April	**29.1**	27.6
(Credit)/charge to Profit and Loss Account (note 5)	**(4.8)**	1.5
(Credit)/charge to Statement of Total Recognised Gains and Losses in respect of:		
Retirement benefit obligations	**(1.0)**	-
Interest rate swap	**0.2**	-
Provision at 31 March	**23.5**	29.1

19. CALLED UP SHARE CAPITAL

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

	2014 £m	2013 £m
5,998,025 (2012/13: 5,998,025) ordinary shares of £1 each	**6.0**	6.0

20. MOVEMENTS IN RESERVES

	Share Premium Account	Capital redemption reserve	Hedging reserve	Profit and Loss Account
	£m	£m	£m	£m
At 1 April 2013	4.4	5.8	(1.6)	74.7
Profit for the financial year	-	-	-	17.1
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	(3.0)
Attributable deferred taxation	-	-	-	1.0
Fair value of interest rate swap	-	-	0.8	-
Attributable deferred taxation	-	-	(0.2)	-
Dividends paid	-	-	-	(13.2)
At 31 March 2014	4.4	5.8	(1.0)	76.6

21. DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2014 £m	2013 £m
Dividends paid		
• Dividend in respect of financial year 2011/12:		
Final dividend of 80.03 pence per share, approved for payment on 30 May 2012	**-**	4.8
• Dividend in respect of 2012/13:		
First interim dividend of 25.62 pence per share, approved for payment on 27 September 2012	**-**	1.5
Second interim dividend of 75.02 pence per share, approved for payment on 26 November 2012	**-**	4.5
Third interim dividend of 39.18 pence per share, approved for payment on 21 March 2013	**-**	2.4
Fourth interim dividend of 25.48 pence per share, approved for payment on 27 March 2013	**-**	1.5
Final interim dividend of 50.85 pence per share approved for payment on 22 May 2013	**3.1**	-
• Dividend in respect of financial year 2014:		
First interim dividend of 39.18 pence per share, approved by the Board on 25 July 2013	**2.3**	-
Second interim dividend of 25.96 pence per share, approved by the Board on 26 September 2013	**1.6**	-
Third interim dividend of 39.18 pence per share, approved by the Board on 21 November 2013	**2.3**	-
Fourth interim dividend of 39.18 pence per share, approved for payment on 6 February 2014	**2.3**	-
Fifth interim dividend of 25.82 pence per share, approved for payment on 27 March 2014	**1.6**	-
	13.2	**14.7**

The Board has proposed a final dividend of £3.3m in respect of the financial year 2013/14 (2012/13: £3.1m).

22. COMMITMENTS

Capital commitments at 31 March 2014 contracted for but not provided were £26.3m (2012/13: £15.1m).

23. RETIREMENT BENEFIT SURPLUS

(a) Pension arrangements

Defined contribution schemes
The Company operates defined contribution retirement benefit schemes for a number of employees. The total cost charged to income of £1.0m (2012/13: £0.7m) represents contributions payable to the scheme. As at 31 March 2014 and 31 March 2013, all contributions due have been paid over to the scheme.

Defined benefit scheme
Pension arrangements for employees are partly provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the trustees of the scheme. The section was closed to new entrants some years ago and all new eligible employees are offered membership of a stakeholder pension scheme.

In addition to providing benefits to employees and ex-employees of the Company, the section provides benefits to former employees of the Company who transferred to BWBSL. The majority of the section assets and liabilities relate to the Company employees and ex-employees.

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

The details of the last triennial valuation and current update on the funding position are provided on page 32 in the Strategic Report.

The estimated amount of the total employer contribution expected to be paid to the section for the year ending 31 March 2015 is £2.4m.

23. RETIREMENT BENEFIT SURPLUS (continued)

(b) Accounting under FRS 17 "Retirement Benefits"

Basis of valuation

The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2013 was updated to 31 March 2014, by Lane Clark & Peacock LLP, using the following major assumptions in accordance with FRS 17:

	2014	2013	2012
Assumptions:			
RPI Inflation	**3.6%**	3.6%	3.4%
CPI Inflation	**2.6%**	2.6%	2.4%
Pension increases in payment (CPI)	**2.6%**	2.6%	2.4%
Pension increases in payment (LPI)	**2.6%**	2.6%	2.4%
Salary increases	**4.1%**	4.6%	4.4%
Discount rate	**4.3%**	4.3%	4.6%

Asset distribution and expected return

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

	Expected long-term rate of return			Market values of section assets		
	2014	2013	2012	**2014** **£m**	2013 £m	2012 £m
Equities	**7.5%**	7.0%	7.3%	**12.8**	14.7	21.2
Diversified growth funds	**6.8%**	6.3%	6.6%	**5.7**	5.6	7.0
Bonds	**3.5%**	3.0%	3.3%	**149.8**	155.2	137.8
Cash	**1.3%**	0.4%	0.7%	**0.3**	0.1	0.7
Emerging markets multi-asset funds	**7.6%**	6.3%	N/A*	**3.0**	3.4	-
High yield bonds	**6.3%**	5.8%	N/A*	**3.5**	3.3	-
Market value of section assets				**175.1**	182.3	166.7
Present value of liabilities				**(147.1)**	(148.3)	(135.3)
Surplus on FRS 17 basis				**28.0**	34.0	31.4
Amount not recognised due to asset recognition limit**				**(16.8)**	(20.7)	(19.5)
Recognised surplus in the section				**11.2**	13.3	11.9
Deferred taxation at 20% (2012/13: 23% 2011/12: 24%)				**(2.2)**	(3.1)	(2.9)
Net pension asset on FRS 17 basis				**9.0**	10.2	9.0

The overall expected rate of return on assets was 3.6% per annum (2012/13: 3.9% per annum). This rate was derived by taking the weighted average of the long-term expected rate of return on each of the above asset classes.

The actual return on the section's assets during the year was a loss of £4m (2012/13: a gain of £19m).

* There was no investment in "Emerging markets multi-asset funds" and "High yield bonds" in the year ended 31 March 2012.

** FRS17 requires that the pension surplus should only be recognised to the extent that it can be recovered through reduced contributions in the future periods or refunds from the scheme.

23. RETIREMENT BENEFIT SURPLUS (continued)

Demographic assumptions

The mortality assumptions have been drawn from actuarial table S1NA with a 95% adjustment to mortality rates and with future improvements in line with the CMI 2012 projections from 2003, with a long-term minimum rate of improvement of 1.25% per annum for males and 1.0% per annum for females (these are the same assumptions as adopted at 31 March 2013 apart from the allowance for future improvements which has been updated to use the more recent CMI 2012 projections rather than CMI 2011 projections used at 31 March 2013). These tables assume that the average life expectancy for a male pensioner currently aged 60 is 27.5 years (2012/13: 27.4 years) and for a female pensioner currently aged 60 is 29.8 years (2012/13: 29.7 years).

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

Sensitivity

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

As an indication all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the liabilities of the section of approximately £2.2m; and
- a 25% fall in the value of the section's return seeking assets portfolio would decrease the surplus (before the consideration of any balance sheet limitation that might apply) by about £6.3m.

Contributions

Contributions paid in the year to the section including those from BWBSL were £2.9m (2012/13: £2.5m). Contributions paid in the year include £2.5m of regular employer contributions and £0.4m of additional contribution as described previously.

As further detailed on page 32 in the Strategic Report, based on the pension trustee advice following the triennial valuation at 31 March 2013, the Company:

- made a deficit contribution of £0.4m for the financial year and agreed to make an annual contribution of £0.4m plus inflation for future years, and
- increased the regular contributions for the main sub-section from 28.9% to 36.7% and for the alternative benefits sub-section from 17.6% to 24.9% from the financial year, of the relevant payroll costs.

Analysis of charges to Profit and Loss Account:

	2014 £m	2013 £m
Analysis of the amount charged to operating profit		
Current service cost under FRS 17	**1.8**	1.7
Total operating charge	**1.8**	1.7

	2014 £m	2013 £m
Analysis of the amount charged to other finance cost		
Expected return on pension section assets	**6.1**	6.1
Interest on post-retirement liabilities	**(6.3)**	(6.1)
Net charge to other finance cost	**(0.2)**	-

23. RETIREMENT BENEFIT SURPLUS (continued)

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
(Loss)/gain on pension section assets	**(10.1)**	12.9
Experience gains arising on section liabilities	**1.2**	0.9
Gain/(loss) due to changes in assumptions underlying the FRS 17 value of the section's liabilities	**2.0**	(12.0)
Actuarial (loss)/gain	**(6.9)**	1.8
Adjustment for the effect of asset recognition limit	**3.9**	(1.2)
Actuarial loss/(gain) recognised in STRGL	**(3.0)**	0.6

The cumulative amount of actuarial gains and losses recognised outside profit and loss account at the year-end, excluding the impact of the asset limit on the balance sheet, is a gain of £1.9m (2012/13: a gain of £5.1m).

	2014 £m	2013 £m
Movement in section pre-tax financial position during the year		
Surplus in section at 1 April	**34.0**	31.4
Movement in year:		
Current service cost (employee and employer)	**(1.8)**	(1.7)
Aggregate regular contributions (employee and employer)	**2.5**	2.1
Additional contributions	**0.4**	0.4
Charge to other finance cost	**(0.2)**	-
Actuarial (loss)/gain recognised in STRGL	**(6.9)**	1.8
Surplus in section at 31 March, before deducting amount not recognised due to asset recognition limit	**28.0**	34.0
Adjustment for the effect of asset recognition limit	**(16.8)**	(20.7)
Recognised surplus in the section	**11.2**	13.3

	2014 £m	2013 £m
Movement in present value of the defined benefit obligation during the year		
Present value of section liabilities at 1 April	**148.3**	135.3
Movement in year:		
Current service cost (employee and employer)	**1.8**	1.7
Interest cost	**6.3**	6.1
Actuarial (gain)/loss	**(3.2)**	11.1
Benefits paid	**(6.1)**	(5.9)
Present value of the defined benefit obligation at 31 March	**147.1**	**148.3**

	2014 £m	2013 £m
Movement in fair value of the section assets during the year		
Fair value of the section assets at 1 April	**182.3**	166.7
Movement in year:		
Expected return on section assets	**6.1**	6.1
Actuarial (loss)/gain	**(10.1)**	12.9
Aggregate regular contributions (employee and employer)	**2.5**	2.1
Additional contributions	**0.4**	0.4
Benefits paid	**(6.1)**	(5.9)
Fair value of the section assets at 31 March	**175.1**	182.3

23. RETIREMENT BENEFIT SURPLUS (continued)

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Market value of section assets	**175.1**	182.3	166.7	149.5	143.1
Present value of liabilities	**(147.1)**	(148.3)	(135.3)	(122.8)	(134.3)
Surplus in the section	**28.0**	34.0	31.4	26.7	8.8

	2014	2013	2012	2011	2010
Experience adjustments on scheme liabilities					
– Amount (£m)	**1.2**	0.9	(2.6)	2.2	3.0
– Percentage of scheme liabilities	**1%**	1%	(2%)	2%	2%
Experience adjustments on scheme assets					
– Amount (£m)	**(10.1)**	12.9	14.1	2.0	16.2
– Percentage of scheme assets	**6%**	7%	8%	1%	11%

24. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2014 £m	2013 £m
Operating profit	**27.9**	26.9
Depreciation, net of amortisation of deferred income	**38.6**	34.7
Difference between pension charges and normal contributions	**(0.6)**	(0.4)
Cash flow from operations	**65.9**	61.2
Working capital movements -		
Stocks	**-**	0.1
(Increase) in debtors	**(2.6)**	(2.2)
Increase in creditors and other liabilities	**3.5**	0.7
Additional contributions to pension scheme	**(0.4)**	(0.4)
Net cash inflow from operating activities	**66.4**	59.4

24. SUPPLEMENTARY CASH FLOW INFORMATION (continued)

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

	2014 £m	2013 £m
Increase/(decrease) in cash in the year	**7.5**	(4.6)
Cash used to repay borrowings	**16.1**	18.2
Cash from new borrowings	**(51.6)**	(1.0)
Decrease in cash deposits in the year (note 11)	**(7.5)**	(55.0)
	(35.5)	(42.4)
Indexation of debt and amortisation of fees and premium not affecting cash flow	**(4.7)**	(4.8)
Fair value of interest rate swap not affecting cash flow	**0.8**	(0.2)
Net borrowings at 1 April including 8.75% irredeemable cumulative preference shares	**(252.9)**	(205.5)
Net borrowings at 31 March including 8.75% irredeemable cumulative preference shares	**(292.3)**	(252.9)

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

	Opening net borrowings £m	Cash flows in the year £m	Maturity profile £m	Adjustments to debt not affecting cash flow* £m	Closing net borrowings £m
Cash at bank and in hand	3.2	7.5	-	-	**10.7**
Cash deposits	9.5	(7.5)	-	-	**2.0**
Cash at bank and cash deposits	12.7	-	-	-	**12.7**
Borrowings due within one year	(2.2)	2.1	(0.3)	-	**(0.4)**
Borrowings due after one year, including 8.75% irredeemable cumulative preference shares and net unamortised premiums in respect of loans	(261.4)	(37.6)	0.3	(4.7)	**(303.4)**
Fair value of the interest rate swap	(2.0)	-	-	0.8	**(1.2)**
Net borrowings including 8.75% irredeemable cumulative preference shares	(252.9)	(35.5)	-	(3.9)	**(292.3)**

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

25. RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the Bristol Water Holdings UK Limited group of companies, members of Capstone Infrastructure Corporation Group, members of the Agbar Suez Environnement Company S.A group of companies, members of Itochu Corporation, and key management personnel.

The principal related parties are:

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

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

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

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

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

25. RELATED PARTY TRANSACTIONS (continued)

Trading transactions

During the year the Company entered into trading transactions with related parties totalling:

	Sales of goods and services		Purchases of goods and services	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Members of the BWHUK group				
BWHUK management charges	**-**	-	**-**	0.1
Members of the Agbar group				
Aqualogy Solutions and Technologies UK Limited	**-**	-	**0.1**	0.2
Aqualogy Environment Limited	**-**	-	**0.5**	0.5
Joint ventures of the BWHUK group				
BWBSL				
- management charges	**-**	-	**2.6**	2.4
- capital expenditure	**-**	-	**0.3**	0.4
- other recharges	**-**	-	**0.5**	0.5
Joint ventures of the Agbar group				
ASTS				
- management charges	**-**	-	**1.4**	1.4
- capital expenditure	**-**	-	**0.7**	1.3
- other	**-**	-	**0.3**	0.3
	-	-	**6.4**	7.1

	Amounts due from		Amounts due to	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Joint ventures of the BWHUK group				
BWBSL	**1.4**	1.4	**0.9**	0.9
Joint ventures of the Agbar group				
ASTS	**-**	-	**0.1**	0.3
	1.4	1.4	**1.0**	1.2

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

Remuneration of key management personnel

Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 71 to 75.

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

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

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

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

Independent auditors' report to the members of Bristol Water plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Bristol Water plc, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account and statement of total recognised gains and losses for the year then ended;
- the cash flow statement for the year then ended;
- the reconciliation of movements in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

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

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be £730,000. This represents approximately 5% of profit before tax.

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

Overview of the scope of the audit

The Company is structured as a single reporting unit. 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.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 56 to 58.

Area of focus	How the scope of our audit addressed the area of focus
Provision for impairment of trade debtors The recoverability of customer debts is always a key issue for water companies. It is very sensitive to changes in economic circumstances, and there has been some slowing down in cash collection rates in recent times.	We evaluated the model used to calculate the provision and 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 the latest cash collection trends and applying reasonably likely changes in the key assumptions.
Accounting for expenditure on infrastructure assets Expenditure on infrastructure assets is either capitalised as an addition to tangible assets or written off to the profit and loss account, depending on the nature of the work done. Given the size and complexity of the capital programme the classification of expenditure requires very significant management judgement.	We evaluated and tested the controls over this area and also tested a sample of expenditure on infrastructure items to check their classification.
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 and compared them with those adopted by the Company. We also evaluated the competency and qualifications of the actuary who performed the valuation, and checked the information provided by the actuary to the financial statements.
Risk of management override of internal controls International Standards on Auditing (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Company, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Company's internal auditors. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. In particular, we examined the estimates and judgements used in the calculation of the impairment of trade debtors, the valuation of the pension scheme surplus and the allocation of capital costs as noted in the other areas of focus. We also tested journal entries.
Fraud in revenue recognition International Standards on Auditing (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. Additionally, there is a particular risk of error in complex judgements and processes such as the measured income accrual which arises where customers' meters are not read at the year end.	We evaluated the Company's revenue recognition policy and tested the controls over this area. We also applied data analysis techniques to test revenue transactions and investigated unusual entries. In addition we tested manual journals affecting revenue and tested the reconciliations between the revenue systems used by the Company and its financial ledgers. Specifically in relation to the measured income accrual, we checked that appropriate data was used in the calculation and that the calculation was accurate.

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 66, required for companies with a premium listing on the London Stock Exchange.

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

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on additional disclosures

Directors' Remuneration Report

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Corporate governance statement

The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the company were a premium listed company. On page 51 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy. On pages 56 to 58, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Matters on which we have agreed to report by exception

Corporate governance statement

The company prepares a corporate governance statement in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and has chosen voluntarily to comply with the UK Corporate Governance Code. The directors

Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose.

We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
14 July 2014

FINANCIAL HISTORY

PROFIT AND LOSS ACCOUNT

Years ended 31 March	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Turnover	**123.9**	114.2	108.0	100.7	99.7
Operating profit	**27.9**	26.9	24.5	18.6	27.9
Interest and irredeemable preference share dividends	**(12.6)**	(11.5)	(13.4)	(10.6)	(4.2)
Net finance expense on retirement benefit obligations	**(0.2)**	-	-	(0.4)	(0.8)
(Loss)/profit on sale of tangible assets	**(0.6)**	-	-	-	0.2
Profit before taxation	**14.5**	15.4	11.1	7.6	23.1
Taxation	**2.6**	(2.3)	(3.9)	(0.8)	(4.5)
Profit after taxation	**17.1**	13.1	7.2	6.8	18.6
Dividends paid	**13.2**	14.7	7.0	2.9	10.2

BALANCE SHEET

At 31 March	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Tangible assets	**345.9**	313.7	264.4	240.7	251.2
Other investments	**68.5**	68.5	68.5	68.5	68.5
Net current assets/(liabilities)	**2.6**	(4.9)	42.0	75.0	19.7
Total assets less current liabilities	**417.0**	377.3	374.9	384.2	339.4
Debt due after one year, excluding irredeemable preference shares	**(292.1)**	(250.9)	(246.9)	(257.3)	(215.8)
Irredeemable preference shares	**(12.5)**	(12.5)	(12.5)	(12.5)	(12.5)
Provisions for liabilities	**(21.3)**	(26.0)	(24.7)	(22.3)	(22.2)
Deferred income	**(8.3)**	(8.8)	(9.3)	(9.8)	(10.3)
Retirement benefit surplus	**9.0**	10.2	9.0	7.6	6.3
Net assets	**91.8**	89.3	90.5	89.9	84.9

CASH FLOW

Years ended 31 March	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Cash flow from operations	**66.4**	59.4	55.8	49.0	48.0
Net interest and irredeemable preference share dividends paid	**(7.8)**	(6.6)	(6.9)	(5.8)	(6.1)
Tax paid	**(1.2)**	(0.7)	(2.0)	(4.0)	(2.8)
Capital expenditure net of contributions	**(79.7)**	(79.8)	(44.7)	(20.4)	(20.5)
Other investing activities	**-**	20.3	26.5	(46.8)	-
Dividends paid on equity shares	**(13.2)**	(14.7)	(7.0)	(2.9)	(10.2)
Cash flow before management of liquid resources and financing	**(35.5)**	(22.1)	21.7	(30.9)	8.4
Management of liquid resources	**7.5**	34.7	(13.7)	(5.5)	(5.6)
Net increase/(decrease) in financing	**35.5**	(17.2)	(2.6)	37.0	(2.2)
Increase/(decrease) in cash	**7.5**	(4.6)	5.4	0.6	0.6

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

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