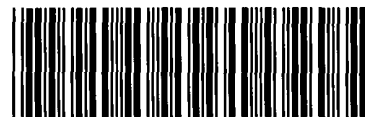


BRISTOL WATER plc

ANNUAL REPORT 2017

Registered number - 2662226

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CHAIRMAN'S WELCOME

Bristol Water and the wider water industry have seen a year of significant change. The successful introduction of a competitive non household retail market is something that the industry can be proud of and we have played our part in this change. The potential impact on the industry is of a scale not seen since privatisation in the early 1990s.

All companies are now preparing for the next price review that will inevitably bring further changes in a regulatory climate that seeks to ensure resilience of underlying infrastructure at a reduced cost, whilst improving customer service further. At Bristol Water, we will continue to respond to these changes in a way that puts our customers first. We know that every cost to the customer must represent good value for money; we are taking steps to be smarter in engineering and maintaining our assets, managing risks better and delivering improved customer service at a lower cost.

Looking back at 2016/17, Bristol Water experienced significant changes in both ownership and Board membership. In April 2016, we welcomed iCON Infrastructure as controlling shareholder and we look forward to benefitting from their sector expertise and long-term investment approach. In December 2016, iCON Infrastructure increased its shareholding in the company as Suez Environment ended its ten year shareholding in the company, a period in which Bristol Water benefitted from being part of a thriving global utility.

During the year we appointed two new independent Board members, replacing two long serving members who retired in line with good corporate governance practice. I would like to pay tribute to the very significant contributions made by both Peter McIlwraith as Audit Committee Chair, and Chris Curling as Remuneration Committee Chair, for their long and distinguished service. I am delighted to welcome our first female Board member, Tracey Wood, who is the General Counsel at Costain, and has now taken over the Remuneration Committee Chair, together with Tony Hemus, a former PWC Audit partner, who has taken over the Audit and Risk Committee Chair.

Last year, I noted that our Chief Executive Officer ("CEO"), Luis Garcia, had announced his intention to step down after over 7 years with Bristol Water. I would like to thank him for his valuable contribution during his time at the Company and wish him well for the future. Luis stepped down as CEO in December 2016, when we announced the appointment of Mel Karam as our new CEO. Mel joined Bristol Water in April 2017 from KPMG International where he was a Partner and Global Head of Asset Management. With over 30 years of experience, Mel has a proven track record in asset management and capital delivery in the the water and wider utility industry. I am delighted that we have found someone of Mel's ability, and look forward to him bringing his energy and ambition to lead the company through its next stage of development. I would finally like to thank Mick Axtell, our CFO, for stepping up as Interim CEO prior to Mel's arrival.

Despite the disruption that is inevitable with such a high level of change, we have had a good year in terms of performance.

We are starting to see the benefits of the new Company structure introduced in 2015/16 in our non-financial and underlying financial results. The Company's financial position has been stable and our business improvement programme, Channel, continues to deliver savings. Our customer service performance remains strong with our Service Incentive Mechanism (SIM) score continuing to improve. Our Customer Satisfaction Index benchmarking scored us at 85.9, which is above the UK average of 77.8. We met our water supply continuity target and reduced the average number of minutes customers were without water during the year. We met our leakage target, which is already one of the toughest in the industry, and achieved our water quality target.

In November 2016 we broke ground on one of the biggest infrastructure projects in our history, the Southern Resilience Scheme. Thirty kilometres of new main will be laid between Barrow Gurney and Cheddar, via Banwell, improving the security of supply to 280,000 people in our supply area.

CHAIRMAN'S WELCOME (continued)

We recognise that our 1.2 million customers have a wide range of needs and preferences in the way they access our services and how we communicate with them. Customers have told us that they appreciate being able to pick up the phone and speak to us straight away but we have also increased the use of Twitter and SMS messaging during the year as we recognise the fast and widespread impact these communication channels provide. Our desire to engage with our customers face to face is also important to us and our teams have met with many customers and stakeholders to explain how our maintenance and capital programmes will impact them and to listen and react to any feedback. The mains renovations programme for the five year regulatory period is well under way with the first stage of the £3 million Fishponds scheme being completed with no customer complaints, despite the disruption caused to large parts of Bristol. The combination of our engagement approach and the goodwill of our customers are key components of the successful delivery of this programme to date.

I was personally encouraged by the positive feedback from in-depth interviews that were conducted with a wide range of key stakeholders. The general feeling was that Bristol Water has a good reputation and we are trusted amongst our local community.

Looking forward, we are determined to develop and build on this year's performance and are working on initiatives to ensure we continue to deliver improved customer service alongside enhanced operational efficiency. I have trust and confidence that our highly skilled and professional workforce can do all of this and more.

A handwritten signature in black ink, appearing to read 'Keith Ludeman', with a stylized, flowing script.

Keith Ludeman
Chairman
13 July 2017

Chief Executive Officer's Update

It has been another year of change at all levels of Bristol Water's organisation. iCON Infrastructure have become the main shareholder, two new independent Non-Executive Directors joined the board, new members joined the executive management team, and the company operating model was fully implemented and embedded. As well as all this, I took up my new role as Chief Executive Officer on 1 April 2017.

Bristol Water delivers a reputable water service for its customers and has continued to make operational and business improvements as this Annual Report sets out. The success of the Company is underpinned by a wealth of well-regarded and dedicated staff who are talented and experts in their fields. It is a company that is geographically and culturally closer to its customers than most other water companies. Due to our relative size, we can also act more quickly than others to achieve our priorities. I look forward to capitalising on these strengths to meet future challenges and continue to make improvements to drive the business forward and further enhance our reputation.

Looking ahead

The health, safety and wellbeing of our staff, contractors and public continue to be our number one priority. Our performance has been improving in this regard with three lost time incidents in 2016/17, an improvement against the previous three years and a step ahead in our journey towards zero injuries. We aim to build on this to make health & safety not just about numbers and processes but underpinning everything we do and inherent in our culture.

Our people make us who we are and determine how we are perceived by our customers and stakeholders. We want to attract and retain the best people at both a local and national level. We are improving our communications with our employees through temperature surveys and direct Town Hall events, and striving to improve our physical, mental and financial wellbeing offering to staff. We want nothing short of happy, healthy and motivated people who bring their best for our customers.

We are forging ahead with the plans and preparations for PR19 and over the next 12 months we will continue to ramp up our engagement with our customers as part of the development of the business plan. We are making improvements in our planning capability and processes to ensure that our customers' priorities are reflected in our business plan across the short, medium and long term. We are conducting a number of benchmarks to assess our relative efficiency and to understand and demonstrate our competitiveness in costs and service levels. We will look to external best practice and innovative ways of working to improve our position towards the frontier so that our customers can be sure of value for money services from us.

When it comes to customer service, we are in a strong position but we won't be complacent. Our SIM score continues to rise and the benchmarking survey carried out by the Institute of Customer Services scored us above the industry and UK average. We will take the findings of that survey and the lessons we can learn and work on improving ourselves so that we can continue to put our customers first and deliver the great service they, quite rightly, expect of us.

We are looking for new and innovative ways to communicate with our customers and we want to use technology to make the conversations we have with our customers smarter, easier and quicker. The more we listen to our customers the more we learn about the value that face-to-face engagement has. We are looking for new ways of providing a space for people to learn, share, and consider what information they value and why.

Operationally, our focus will be on resilience, asset health and serviceability. We will seek to do this and provide ongoing continuity of service through programmes such as the Southern Resilience Scheme and the mains rehabilitation work running through Fishponds in the centre of Bristol. We will be ramping up our metering programme this year to increase the proportion of customers with a water meter. This is an essential part of building sustainable future water supplies. We will conduct extensive customer communication in our supply area to convey the importance of this programme and to convince our customers to opt for a metered supply.

Chief Executive Officer's Update (continued)

We are committed to pushing forward with our Biodiversity work and our commitment to improve the environment at every site we impact. Where this is not possible we will return to the same environmental state as before we started. Our award winning Biodiversity Index Score programme has been rolled out across the 30km of the Southern Resilience Scheme.

We will continue to build and improve our community links and our engagement with stakeholders and government at a local and national level. We will actively seek opportunities to work with local government to deliver greater water efficiencies and improve infrastructure for our customers. We have launched another water fountain in Bristol City Centre and our multiple award winning water bar will continue to be deployed across several high profile events across our region.



Mel Karam
Chief Executive Officer
Appointed: 1 April 2017
13 July 2017

CHIEF FINANCIAL OFFICER'S BUSINESS REVIEW

The last 12 months have seen the business demonstrate its commitment to improving operational performance and efficiency and its ability to deliver a high quality and responsive service to our customers. It has been a year of transformation and modernisation, building our capability and resilience to face the future challenges in this sector. The year has also seen a new majority shareholder, significant changes to our Board and a new CEO. Despite all of this change we have successfully delivered key initiatives and operational improvements.

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

Investment in our water supply

This report reviews the second year of our AMP6 (Asset Management Plan 2015-2020) investment cycle and some major capital schemes are well underway.

The Southern Resilience Scheme is a new £27 million infrastructure project that will provide improved security of supply to over 280,000 customers across our supply area. Once in place this new network will give us increased capacity for population and economic growth and the ability to move water between our northern and our southern regions in the event of a loss of supply.

At the end of the financial year under review, nearly a quarter of the 30km of new mains had been laid. The need to obtain planning permission for this scheme initially delayed implementation, but we remain on target for supply to be operational by March 2018. Inevitably a project of this scale will bring disruption to communities and traffic and we have consulted extensively with the local authority, town and councils on the route, traffic management and diversions. We have also been proactive and visible in communicating with and listening to the public through open meetings, MP communications, radio interviews, social media, letters and on-site signage.

Another capital project happening in central Bristol is a £3 million renovation of the main from Oakfield Pumping Station in Clifton to Greenbank Cemetery in Easton. The first stage from Clifton to St Paul's was completed in 2016. We engaged with residents street by street to inform them in advance about why the scheme was needed and how they would be affected by street works and road closures; this proactive approach resulted in zero customer complaints or enquiries.

For the second stage of this project, from Lawrence Hill to Easton, we are focusing our communication efforts through local community radio and online forums and are working with Bristol City Council's Housing Department communications team. We have also engaged local MP Thangam Debbonaire and the Mayor of Bristol Marvin Rees to support our community engagement around the scheme. We are very grateful for the cooperation and understanding given to us by those affected by these and other schemes.

Operational performance

In 2016/17 we supplied on average 236 million litres per day (Ml/d) to 516,000 properties providing water to a total population of 1.2 million household and non-household customers. The total water into supply was 273 Ml/d compared with 266 Ml/d for 2015/16. This increase was mainly due to an increase in overall per capita consumption from 141 l/person/day to 144 l/person/day attributed to the drier weather conditions during the year.

For the year ending March 2017, total Mendip rainfall was 609mm, which is 300mm below long term average. The dry summer and autumn meant below average inflows into Blagdon, Chew and Cheddar Reservoirs. As a result, reservoir levels did not begin to recharge until the storms of November 2016. Rainfall continued to be below average during the winter and early spring. We responded early to the low rainfall to maximise our water storage. We minimised the use of our Mendip Reservoirs by maximising groundwater sources, bringing additional treatment works into operation and increasing output from the River Severn to support our southern supply zone. As at March 2017 our reservoirs had recharged to within our normal operating range.

CHIEF FINANCIAL OFFICER'S BUSINESS REVIEW (CONTINUED)

We continue to meet the most stringent water quality standards with 99.97% of legally required samples meeting the Mean Zonal Compliance set by the UK and European Community. We are well positioned in the industry rankings with performance relating to appearance of water, and this year we have also come in well above industry average in relation to DWI reportable events.

During the year we have focused on implementing measures to improve the level of Unplanned Customer Minutes Lost (UCML) – a key measure which shows the impact of bursts on customers in terms of time without water. Despite burst rates being above expected levels and there being several operationally challenging events, our operational teams have been able to minimise customer disruption by using new techniques and live repairs. This has resulted in the best UCML performance in 3 years.

A leakage action plan was launched in the winter of 2016 to address the higher volume of leakage, which was partly due to an increase in the level of bursts following two cold spells. Our approach included increasing levels of active leakage control (detect and repair) and pressure management. In addition we recruited two new leakage inspectors and hired specialist consultants in leakage and pressure management. In just two months (January and February 2017) an additional 875hrs in leakage detection work resulted in 105 leaks being detected, reducing leakage levels by approximately 0.8 MI/day. As a result we were able to contain the increase in leakage from 44 MI/d in 2015/16 to 46MI/d in 2016/17. See page 16.

Meter penetration remains at just under 50% - nearly 5% below the target set for this year and the level of uptake of customers opting to have a meter has been reported across the industry as being lower than the levels predicted in PR14 Business Plans. Plans are in place to improve installation rates and increase the number of meter optants that should put us back on track.

We actively engage with our customers about the need to be efficient in the use of resources, and encourage our customers to do the same. Metering makes a major contribution to this, as does our ongoing campaigning around water efficiency. In 2016/17 customers ordered 26,824 free water efficiency devices for their homes and gardens through our Save Water Save Money online service, which is now much more targeted through an online household water use calculator.

To support the development of our Water Resource Management Plan for Periodic Review 2019 (PR19), we have extended our pioneering project with University of the West of England based around the live laboratory of the student village. As well as using the accommodation blocks to test how students use water and assess the impact of water saving ideas, we are also using the students as a focus group to test our messaging around water efficiency and drought.

Customer service achievements

Our customer service performance is measured through feedback and surveys and Ofwat uses the Service Incentive Mechanism ('SIM') to benchmark customer service across the industry.

Last year saw a big improvement in our Service Incentive Mechanism taking it to 85.1/100 and this year we are delighted to see another rise to 85.9/100. This is due to improvements across all areas that are accounted for in the SIM, including operational and billing service measures and complaint levels. This year continues to see a fall in complaints and we remain in the top five industry rankings for this key indicator of customer satisfaction.

We have been very focused on continuous improvement and several customer facing teams have been working on in depth reviews of their processes in order to find ways of doing things differently - and better. We have been looking closely at all our customer groups as we recognise that each of them have different expectations from us, and we are now talking and listening to each group more than we have ever done.

We introduced an online panel for household customers called 'Let us know' and each quarter more than 1200 customers take part in some focused research. We have also launched a series of market engagement workshops with Developers and Self-Lay Providers and have been getting to know our newest customer group, the Retailers, following the opening of the retail non-household market.

CHIEF FINANCIAL OFFICER'S BUSINESS REVIEW (CONTINUED)

Our service commitments to all our customer groups are now detailed in our new Promise, which has replaced our Bristol Water Bond. We are doing more than ever to help people who are struggling to pay their bills and continue to be at the forefront of the industry in this area, working closely with debt agencies and community support groups to promote our assist schemes and social tariffs, increasing the number of beneficiaries by 23% to 14,370 households this last year.

As a business we have also taken the step of taking part in the Institute of Customer Service benchmarking survey for the first time. This tells us more about our culture and strengths and weaknesses, and positions us amongst our peers in the water and wider customer service industries, knowledge we can use to guide us in our business planning.

Competition

Since April 2017 all non-household customers in England have been able to choose who provides their water and waste water services. In the new Open Water market, businesses buy their water service provision from retailers who in turn buy from water and sewerage wholesalers.

During the year in review, we worked hard with the rest of the industry to successfully open the non-household retail market. In April 2017 we sold our retail non household customer book to Water 2 Business Limited, but remain as the water wholesaler within our supply area. During the financial year in review we made many changes to our processes and ways of working in preparation for this structural change. We will maintain our focus in this area going forward to ensure the market remains a level playing field for all the retailers we supply.

A responsible business

Bristol Water aims to provide an outstanding water service in an environmentally sustainable way and we recognise our responsibility to safeguard the environment. We continue to meet our environmental targets and our reservoirs at Chew Valley and Blagdon remain at the highest assessment levels for Sites of Special Scientific Interest and are internationally renowned for migrating birds and for trout and pike fishing.

We strive to balance the needs of all the diverse recreational groups who have an interest in the lakes with the communities that live around them and our requirement to maintain and protect the water source for our customers.

This year significant developments have been made in the visitor experience with new signage, work on the nature trails and re-development of Woodford fishing lodge at Chew into a high quality lakeside dining destination. We have been working closely with the Mendip Lakes Partnership and farming groups on catchment management to ensure that the water supply and quality is not impacted by local activity.

Our commitment to protecting biodiversity can be shown through an innovative measure we have developed called the Biodiversity Index (BI). This new approach is designed to quantify the biodiversity at company sites, helping us to measure their 'value' and then quantify the impact and benefit of our actions on the broader environment. It also helps improve the resilience of the environment by creating an improvement to its current status. Each year we aim to show an improvement to the BI scores.

In order to achieve this, an appropriate amount of offsetting to mitigate and improve impacted environmental features must take place following all engineering, maintenance and routine works. This new way of working has been integrated into our decision making processes and is now a requirement for all works we undertake.

Bristol Water remains committed to supporting community initiatives that meet our criteria of being local, environmental and educational. We aim to make a positive difference by promoting the wellbeing of communities and by behaving in a socially responsible manner.

CHIEF FINANCIAL OFFICER'S BUSINESS REVIEW (CONTINUED)

In 2016 we partnered with a community campaign called Refill Bristol to promote tap water in the city and encourage people to carry refillable bottles rather than buy single use plastic bottled water. A network of more than 200 refill stations – where you can top up with free tap water – exist to make Refilling easy, but Bristol Water took the concept of Refill further by creating a free water bar that we took to festivals and community events. The Bristol Water Bar doesn't just promote tap water; it elevates our product, making it novel and appealing, and allows our messaging on other subjects to be better received. We were able to speak to customers about water efficiency, metering, leakage and other subjects and we estimate that more than 16,000 people refilled for free last summer. The Water Bar won the Bristol and Bath Environmental Innovation Award 2016, which was great recognition of this scheme.

Last year we funded or offered support in kind in the region of £10k to the likes of the Festival of Nature, Portway Sunday Park, Dundry Slopes Community Roundhouse, Babbasa Youth Projects and Avon Fire and Rescue.

Our annual stakeholder survey conducted in March 2017, had close to 500 respondents from businesses, local authorities, charities and regulators in our supply area. 85% said we were good or excellent to do business with, 66% said we had a good or excellent reputation as a business, and 75% said we had a good or excellent reputation for corporate social responsibility.

Financial performance

Our financial performance shows a reduced profit this year in large part due to one-off effects in the prior year.

Turnover is consistent with 2015/16 at £111m. Profit before tax has reduced by £7m. Operating costs have increased by £4.9m of which £3.0m relates to the curtailment gain on the closure of the defined benefit pension scheme in 2015/16. The remaining increase in operating costs has been driven by inflationary rises and the higher cost of addressing the operational issues encountered during the year but mitigated by the impact of business improvements. Our ongoing efficiency programme, Project Channel, and our new business operating model are both now fully embedded and have delivered optimisation and improvement initiatives. Profit before tax was also impacted by £2.1m of increased interest costs, mainly due to higher indexation.

Our Borrowing levels have only risen slightly, and therefore fallen as a percentage of Regulatory Capital Value (RCV) from 66% to 63%. We have met all of our financial covenants and continue to maintain our Baa1 stable credit rating.

Our capital programme for the regulatory period is well underway, with fixed asset additions of £38.8m (2015/16: £30.1m). Our investment will increase over the coming years as our new project planning and new risk management approaches lead to optimised delivery of asset interventions and improvement schemes.

Going forward, we are determined to develop and build on this year's initiatives to ensure we continue to deliver improved customer service alongside enhanced operational efficiency while retaining our reputation as a good local business and corporate citizen. We start from a position of strength due to the commitment and professionalism of our staff, to whom we owe huge thanks.

A comprehensive analysis of our financial results can be found in the Strategic Report on page 30.



Mick Axtell
Chief Financial Officer
13 July 2017

STRATEGIC REPORT

The directors present their Strategic Report on the Company for the year ended 31 March 2017.

OUR BUSINESS

Bristol Water was founded in 1846 and while the world has changed beyond recognition, our business ethos remains the same: customers are at the heart of everything we do. We understand how important a reliable and clean water supply is to everyday life; we are acutely aware of the need to make the right decisions to provide an affordable, high-quality service into the future. After all, we are customers too.

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

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

We are one of 16 companies in England and Wales who distribute water and Bristol is one of six that focuses exclusively on water, not wastewater. In our supply area, wastewater services are provided by Wessex Water and to make it easier for our customers and provide an efficient service, we set up Bristol Wessex Billing Services Limited (BWBSL) together so that we only send a single bill to cover both services. A second joint operation undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited has more recently been set up to provide meter reading, billing, debt recovery and customer contact management services to the non-household sector. In April 2017 we sold our retail non household customer book to Water 2 Business Limited ("W2B"), but remain as the water wholesaler within our supply area.

Our business model and strategy

In 2016/17 we supplied water to over 516,000 domestic and business customers, including 5,000 newly connected properties in the year. We are committed to fulfilling the growing demand and delivering a reliable supply and high level of service that our customers have told us they want. We target our regulatory commitments through a business model that helps generate significant efficiencies.

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

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

STRATEGIC REPORT (continued)

Regulatory framework

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

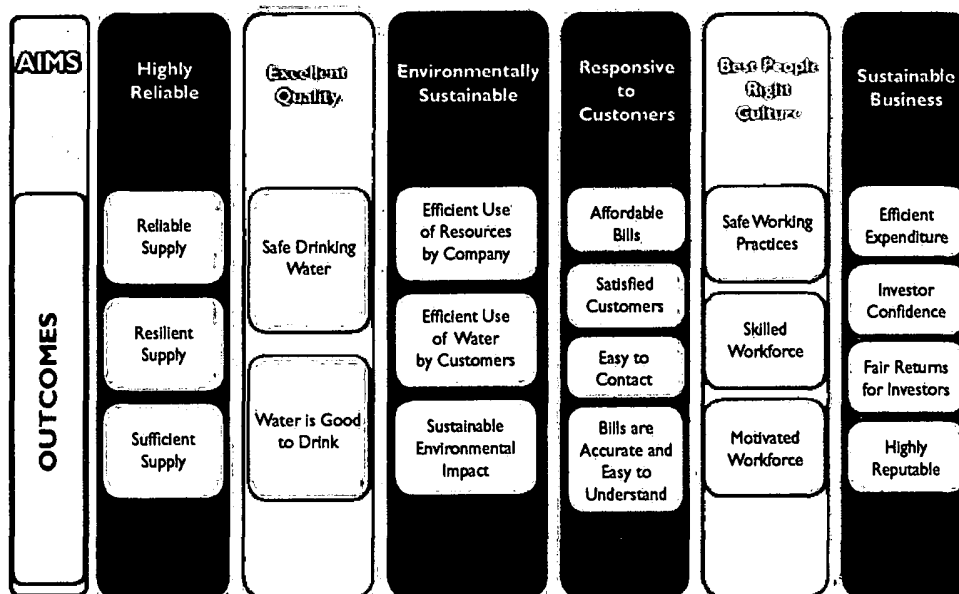
- Further the consumer objective to protect the interests of consumers, wherever appropriate by promoting effective competition
- Secure that water companies (meaning water and sewerage undertakers) properly carry out their statutory functions
- Secure that water companies can (in particular through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

Other regulatory bodies include:

- The Drinking Water Inspectorate (DWI), which is responsible for assessing the quality of drinking water in England and Wales, taking enforcement action if standards are not being met and other appropriate action if water is unfit for human consumption
- The Environment Agency (EA), which regulates licences for water abstraction, and preserves and improves the quality of rivers, estuaries, coastal waters and groundwater, through pollution control powers and the regulation of discharge contents
- The Consumer Council for Water (CCWater), an independent organisation whose role is to provide information of use to consumers and to promote the interest of all water consumers
- Natural England, which is the Government's adviser for the natural environment in England, helping to protect England's nature and landscapes for people to enjoy and for the services they provide.

In 2014 we published a business plan setting out our priorities for 2015-20. This included a number of key aims, and the outcomes that we want to deliver for our customers and stakeholders.

Bristol Water's Aims and Outcomes



STRATEGIC REPORT (continued)

Price review process (2015-20)

This regulatory period (2015-20) is known as Asset Management Period 6 ("AMP6") and the price that water companies can charge their customers during AMP6 was set through Ofwat's price review process (known as PR14). This process considers the cost requirements of water companies and the service levels we should deliver for customers.

Retail competition was introduced for all non-household customers in April 2017. To support the expansion of retail competition, Ofwat set separate price controls for wholesale services, with different retail controls for household and non-household customers. We decided to exit the retail non-household market and sold our non-household customer book to W2B.

Development of our next business plan to cover the period from April 2020 until March 2025, is now underway through the 'PR19' process. Customer Challenge Groups/Panels hold water companies to account on current performance and are used to influence business planning and provide on-going assurance to the industry regulator, Ofwat. The new independent Chair, Peaches Golding OBE, holds a unique position of trust between the people and businesses supplied by Bristol Water and has a remit to constructively challenge and influence the Company on behalf of customers, reflecting their views and interests. The appointment of Peaches, who brings a wealth of expertise and experience to her role, demonstrates our commitment and desire to listen and respond to our customers views.

Long-term strategy

Our 25-year strategy 'Water in the Future' was published in 2012, and 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', with measures of success developed for each Outcome. We are reviewing and refining these aims and performance commitments with our customers as we develop our business plan for 2020 - 2025.

In March 2017 we published our new draft Drought Plan explaining how we would manage our water supplies during any period of potential water shortage. The consultation for this draft Drought Plan closed on 21st May during which we received 33 responses from our stakeholders and customers; these responses will help shape the final plan, which will be published in October 2017. In 2014 we published our Water Resources Management Plan (WRMP) 2014-2040, which sets out our plan to meet our customers' need for water over the period to 2040. This plan provides a detailed assessment of the future impacts of climate change; projected increases in the population we supply; an investigation of how our customers' water use may change over time; and the options available to ensure that we are able to maintain a resilient and reliable supply of water to our customers. These options include reductions in leakage, increases in water metering and obtaining new sources of water. We have since started to develop our new WRMP due to be sent to DEFRA at the end of 2017, which will explain our on-going plans to ensure we have sufficient water resources to meet our customers' water demands and meet the challenges of population growth and climate change.

The population we serve is expected to increase by approximately 14% by 2045. It is anticipated that there will also be growth in the number of businesses we serve to support this growing population and although demand for water per person is falling, an increasing population could lead to an increased demand for water.

Climate change is expected to bring greater variability in the weather with droughts and wet weather becoming more frequent and severe. If drier summers become more common, water availability could change and yet there may also be an increased risk of flooding as the winters become wetter, which may in turn threaten the quality of our water sources. Our WRMP sets out how we propose to manage these challenges while continuing to provide affordable, secure and safe water supplies.

Bristol Water has one of the lowest leakage levels in the UK water industry, performing within the upper quartile of companies in England and Wales. However, as set out in our WRMP, we want to improve further and by 2020 aim to reduce leakage to 16% of water produced (compared to over 20% in 2009/10).

STRATEGIC REPORT (continued)

Retail competition

Since April 2017, all non-household customers in England have been able to choose who supplies their water and wastewater services. In this new Open Water market, businesses buy their water services from retailers, who in turn buy services from the existing water companies who act as wholesalers. We sold our retail non household customer book to W2B, but remain as the water wholesaler within our supply area.

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

Over the year under review, Bristol Water has been undertaking various activities to support our readiness for the new market. We've worked closely with the central programme teams and stakeholders to deliver various obligations and allow us to operate successfully in the market. A number of technical, legal, process and cultural challenges have been overcome to allow a successful transition to market opening and given the level of complexity involved, the progress and results shown over the last year have been a very significant achievement. In addition, we have engaged with third parties to provide the necessary assurances to the Bristol Water board that we were ready for market opening which in turn were shared with MOSL (Market Operator Services Limited) and Ofwat as part of our market readiness preparation.

We have now delivered a successful programme of change and are interacting with various retailers in the UK which are providing water services to customers in our supply area. Our new Wholesale Services team are engaging with these new retailers and also supporting all of the necessary interactions with the market operator. Early stages of the new market have been successful and we look forward to seeing how the market progresses and playing our part in a successful market place.

CURRENT PERFORMANCE

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

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

STRATEGIC REPORT (continued)

Aim	Outcome	Performance Measure/KPI	Units	2016/17 Target	2016/17 Actual	2015/16 Actual
Responsive to customers	Affordable Bills	Percentage customers in water poverty ¹	%	2.0	0.9	0.4
		Percentage of customers on social tariffs ²	%	1.6	2.0	1.7
	Satisfied customers	Ofwat measurement of customer service (SIM) ³	Score/100	85 ³	85.9	85.1
		General satisfaction survey ⁴	%	93	86	83
		Value for money rating ⁵	%	71	72	70
	Easy to contact	Ease of contact from surveys	%	96.4	94.4	95.0
	Bills are accurate and easy to understand	Negative billing contacts ⁶	No.	2,480	3,096	2,301
Excellent quality	Safe drinking water	DWI standards Mean Zonal Compliance	%	99.96	99.97	99.93
	Water is good to drink	Negative water quality contacts	No.	2,409	2,162	2,329
Highly reliable	Reliable supply	Unplanned customer minutes lost	Minutes per customer	13.1	13.1	15.5
		Asset reliability (below ground assets)	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
		Asset reliability (above ground assets)	Improving/ Stable/ Marginal/ Deteriorating	Stable	Stable	Stable
	Resilient supply	Population at risk from asset failure due to an extreme event ⁷	Population	288,589	288,589	288,589
	Sufficient supply	Security of supply index	No.	100	100	100
		Hosepipe ban frequency	Return period (1 in 'X' years)	15	15	15
Environmentally sustainable	Efficient use of resources by the Company	Leakage	ML/day	47.0	46.4 ⁸	44.2
		Pumping efficiency	%	57.0	58.5	56.4
	Efficient use of water by customers	Per capita consumption	litre/head/day	144.5	144.1	141.1
		Domestic Meter penetration ⁹	%	54.8	49.6	47.3
	Sustainable environmental impact	Total carbon emissions	Tonnes CO2 Kg/person	25.0	31.8	35.3
		Raw water quality of sources ¹⁰	Improving/ Stable/ Marginal/ Deteriorating	Deteriorating	Deteriorating	Deteriorating
		Biodiversity Index	Improving/ Stable/ Marginal/ Deteriorating	Improving	Improving	Improving
		Environmental Discharge Compliance	%	100	95.8	96.1

STRATEGIC REPORT (continued)

Aim	Outcome	Performance Measure/KPI	Units	2016/17 Target	2016/17 Actual	2015/16 Actual
Best people right culture	Safe working practices	No. of accidents reportable to Health and Safety Executive ("HSE") ¹¹	No.	Nil	1	1
	Skilled and motivated workforce	Temperature checks, Voluntary turnover, Business Performance	% of respondents who like their job. Reasons for leaving, Hitting targets.	Maintain high level	No survey. Temperature checks undertaken.	No survey.
Sustainable business	Investor confidence	Credit rating	Moody's rating	Baa1	Baa1	Baa1
	Fair return to investors	Return on Regulated Equity (RORE)	%	5.8	4.59 ¹²	4.1
	Highly reputable	Customer survey ¹³	%	83	86	83
		Stakeholder survey	%	53	54	55

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

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

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

⁴ Based upon the results of our annual survey of 1000 household customers selected at random from the total customer base, who were asked how they rate our service.

⁵ Based upon the results of our monthly SIM surveys of a sample of approx. 800 customers who have contacted us in the year, who were asked to rate us in terms of value for money

⁶ Based upon a subset of the unwanted billing contacts reported for SIM purposes by our billing company BWBSL.

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

⁸ Leakage Reporting 2016/17

- As part of our ongoing improvement process for data reporting during 2016/17 we reviewed the key assumptions used in calculating our ODI measures. This process included a thorough review of our leakage calculation. Leakage is a complex measurement, which involves analysis of the amount of water we supply into the network, the amount that is recorded through customer meters, and assumptions on the level of usage by customers who don't have a meter fitted. The amount of water which we can't account for as customer consumption is reported as leakage.
- Our review of the assumptions in our leakage calculation identified that the assumption for one component, 'non-household night use' (NHHNU) was last updated in 2007. As a result, we carried out an updated assessment of this figure in 2017.
- This updated assessment showed that the current NHHNU figure is 22.6 litres per connection per hour (l/c/h), an increase of 5.1 l/c/h on the previous assumption of 17.5 l/c/h. The updated assumptions are based on 1,001 night use sample data with older sample data removed. The new sample data represents 3% of the NHH accounts and the night use model is fully compliant with the UKWIR guidance and is therefore reliable.
- Applying the updated assumption to our leakage calculation results in a figure of 44.9 MI/d and represents our best view of leakage in 2016/17. Not applying the updated assumption would result in a figure of 47.4 MI/d, a difference of 2.5 MI/d.
- Our assurance review of this figure identified that applying this updated assumption to the calculation of performance may cause the reported figure to be seen to not be directly comparable with the assumptions on which the targets for this ODI were set at PR14.
- The targets for our leakage ODI were proposed in our PR14 business plan of December 2013. These targets were based on achieving a 6 MI/d (12%) improvement in leakage starting from the target for 2014/15, which had been set as part of the 2009 Price Review and Water Resources Management Plan. It is important to note that the targets proposed at PR14 were not directly based on actual performance levels achieved in the period preceding the submission.

STRATEGIC REPORT (continued)

7. In order to attempt to provide consistency between the figure reported for 2016/17 and the basis of the ODI target, we have estimated the annual effect of the movement between the previous and updated assumptions for NHHNU. We have assumed that the 5.1 l/c/h increase from 17.5 to 22.6 l/c/h occurred on a linear basis between 2007 and 2017, and that six years of that ten year effect would have occurred by the point at which PR14 targets were set in 2013. To recognise this, and in an attempt to be seen to be consistent between our reported leakage and the PR14 target, our leakage figure for 2016/17 reflects the effect of adding back 6/10ths of the effect of the change in the NHHNU assumption to the leakage figure as set out in the table below:

Before updated NHHNU assumption	47.4 MI/d
Effect of updated NHHNU assumption	-2.5 MI/d
After updated NHHNU assumptions	44.9 MI/d
Effect of adding back 6/10ths of updated NHHNU assumption	+1.5 MI/d
Reported figure for 2016/17	46.4 MI/d

8. It is important to note that no financial reward or penalty would be applicable within the financial year by either applying the assumptions in full or our proposed adjustment to our reported leakage figure for 2016/17. The incentive mechanism for this ODI is based on an average of performance over five years. Therefore there may be implications for the incentive calculation when leakage is reviewed over the price control period, depending on the level of outturn performance in future years.
9. We have not proposed to restate our reported 15/16 performance, however, we note that retrospectively applying the updated assumptions would result in an improvement in performance for that year.
10. The value of reported leakage also impacts another of our outcome performance measures, Per Capita Consumption (PCC). A higher leakage number results in a lower amount of water assumed to be consumed by customers. We have applied the adjustments detailed above to the reported leakage figure results in our reported PCC for 2016/17 of 144.1 litres/head/day. If the +1.5 MI/d adjustment was not applied this would result in calculated PCC of 145 l/h/d, slightly above the target level of 144.5 l/h/d. No financial incentive is applicable to this ODI, however, we report it to customers and stakeholders as a reputational incentive measure.
- ⁹ We believe the lower domestic meter penetration is attributable to a change in metering policy and reduction in meter optants due to reduced bills.
- ¹⁰ The definition of deteriorating is based on comparing 5-year average data. Deteriorating raw water can be caused by nutrients and sediment entering water sources. We are working with a wide range of stakeholders to improve the quality of raw water going into our treatment processes.
- ¹¹ A reportable HSE accident indicates staff have taken more than seven days sickness absence or sustained a broken bone due to a work related injury.
- ¹² The RORE shown of 4.59% is the average for 2016/17 and 2015/16. Clarification from Ofwat identified that the methodology should include preference shares in the calculation of the difference between the actual interest charge and the allowed interest. Applying this update, last year's RORE reduced to 3.94% from the figure of 4.15% reported last year and included in the table above.
- ¹³ Based upon the results of our annual survey of customers selected at random from the total customer base, who were asked how they rate our service. This is based on satisfaction levels of 'excellent', 'very good' and 'good'.

Responsive to customers

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

STRATEGIC REPORT (continued)

Affordable bills

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

We have a total of four schemes in place with 14,370 customers receiving assistance through these measures, an increase of 23% over last year. At the moment, 1,535 households are currently benefitting from our 'Restart' scheme to clear their debt combined with our 'Assist' tariff, which reduces bills to an affordable level and helps customers who are in financial difficulty to get back on track with their water bill.

2,160 households are on our WaterSure Plus metered tariff, this is for customers in receipt of certain benefits, and are defined by the government as 'vulnerable', either because they have a medical condition or a large family.

We are amongst the first in the industry to introduce a Pension Credit social tariff scheme that gives a 20% discount on water bills to Bristol Water customers who live in a household where all members over the age of 18 are in receipt of Pension Credit. One year from launching this we have 1,328 customers benefitting from this tariff.

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

We know that water debt is seldom isolated and we work to provide independent debt advice, working closely with the agencies that provide these services. In 2016/17, we donated £75,000 to debt advice agencies across our supply area to support them in providing free advice to our customers. We also work closely with our partner organisations to sponsor and attend debt and affordability events in our region. In 2016/17, we attended seven such events including Blue Monday and the South Bristol affordability event as well as hosting a workshop for our partners in the Debt Management and Support sector.

Satisfied customers

Over the last year we have worked on a wide range of projects and implemented a number of improvements to make positive changes to our customers' overall experience. These initiatives have included a review of a number of the key customer journeys as well as more qualitative research and understanding of our comparative performance. To aid our understanding, we have recently completed the Institute of Customer Service business benchmarking survey for the first time; our customers scored us 83.6 out of 100. We are very proud that our score is higher than both the Utility and National averages.

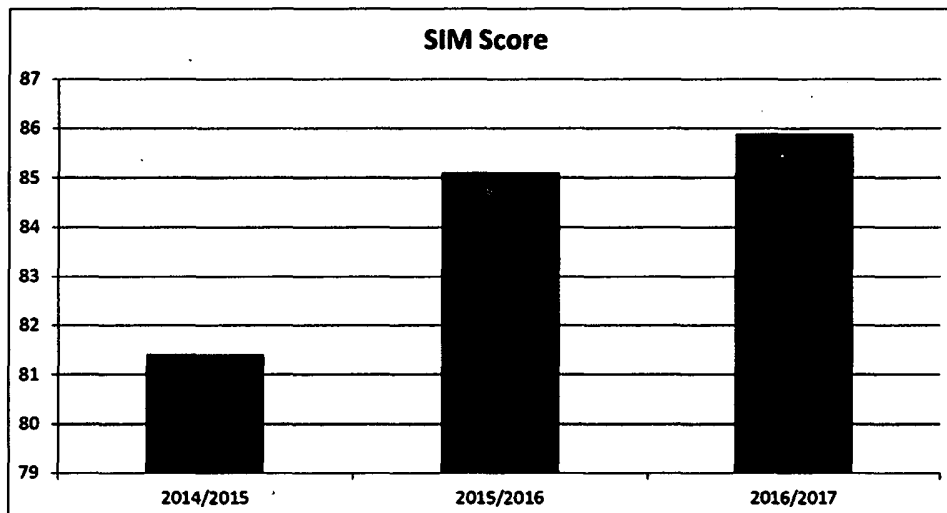
We use the following five indicators to assess whether our customers are satisfied with the service we provide:

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

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

STRATEGIC REPORT (continued)

Our SIM score in 2016/17 is 85.9, an increase of 0.8 on the 2015/16 result. In terms of the qualitative ranking we are joint 4th, this measurement makes up 75% of the SIM score. Our relative performance on the quantitative element is not yet known until other companies publish their result, these will be available in July 2017. Following publication of 2015/16 results, we were ranked 5th.



Our focus this year has been built around the need to quickly resolve all enquiries in order to improve the SIM survey and improve the speed in which customers receive a response. Projects which have supported this have included improvements to the customer journeys across New Supplies and Metering. We have scrutinised all elements of the journey and in particular made a number of positive changes with our third party contractor, Kier, to ensure a consistent service is received at all stages. We have also introduced 'daily huddles' with Kier, Network Managers and Customer Service representation to discuss all complaints and any known operational issues that may impact on customers that day. Whilst we have seen a significant increase in written complaints, a contributing factor to this is that we have reviewed and amended which enquiries are logged as complaints. Our overall customer satisfaction has improved as customer contact is being resolved quicker. Whilst we have seen the complaint numbers in SIM increase, at the same time unwanted calls have decreased and our performance in the survey has improved. Email usage is also continuing to increase; to help ensure we are available to our customers on a medium they wish to use we are looking to introduce a Live Chat channel and real time feedback to help reduce complaints in the coming year.

We survey customers every month using the same independent research agency that Ofwat uses to get feedback. This allows us to obtain a consumer rating of the value for money we provide. In 2016/17, 78.9% of consumers in these surveys rated our service as providing good value for money – again a slight positive increase from 78% last year.

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

In March 2017, 86% of respondents rated our service as excellent, very good or good, compared to 83% the year before and 69% in 2015. These increases and the high level of customer satisfaction is very encouraging – however, it is still less than our target of 93%. The survey showed us that we had continued to improve our customer satisfaction on a range of attributes including value for money, comparison to other utility providers and our efforts with water efficiency.

We have continued to supplement these surveys with additional feedback and insight including our online customer panel called 'Let us Know'. We have now had four surveys, covering a range of topics and the feedback from these helps to inform our knowledge and insight about what is important to our customers. We currently have over 1,000 active members. All of the results are available on our website.

STRATEGIC REPORT (continued)

We also continue to use feedback cards; every customer will receive a feedback card if we have worked near their home. We receive around 100 returned cards a month; customers can either post them in or fill in the survey online.

For our more specialist technical customers, the Development Services team have introduced a robust customer engagement strategy for both Developers and Self Lay Providers. This includes a mixture of anonymous surveys, direct outbound phone calls and real-time feedback. To supplement these activities, in March the first Market Engagement Day was held at Ashton Gate to discuss key topics in more detail.

Easy to contact

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

In 2016/17, 94.4% of consumers surveyed considered that it was easy to contact us by phone – this was almost stable to the previous year. This measure is calculated through eight surveys of 100 consumers. Towards the end of the year we have seen higher satisfaction scores as we have embedded the use of SMS messaging in the contact centre. Although customers do not have to wait for us to answer the phone, the use of SMS has allowed our team to be more available to deal with other enquiries when unplanned bursts are active. The use of SMS to support customer communications appears to be improving this measure. To score highly in this measure, customers expect us to have quick and accurate information so we are working on improvements to make information more easily available to our employees so they can answer questions consistently and correctly the first time.

Bills are accurate and easy to understand

Our customers want bills that are accurate, clearly presented and easy to understand, we monitor this by measuring a subset of the number of 'unwanted' billing contacts we receive. 'Unwanted' is the term used by Ofwat in its quantitative SIM measures for calls which the customer would prefer not to make, in the sense that they are dissatisfied because they are experiencing a problem or concern, are making a repeat or chase call, or want to complain. The audits that took place in 2016 have helped us to refine our methodology of how contacts are classified within this measure. Historic results have not been restated so year on year comparisons do not reflect underlying trends.

The changes in classification have increased our reported results to 3,096 in 2016-17, which is higher than our target and represents 11.8% of all unwanted calls across the business. Meeting our target is now, therefore, even more challenging but we are responding by increasing our efforts to embed further improvements to reduce the unwanted contacts.

Excellent quality

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

Safe drinking water

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

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

During 2016 our random compliance sampling at customers' properties identified four taste and two odour failures associated with internal plumbing deficiencies. Although these failures were solely attributable to customers' plumbing issues, they had the effect of reducing our MZC figure from 99.99% down to 99.97%.

STRATEGIC REPORT (continued)

In 2016, none of the 3,609 compliance samples taken at treatment works was found to contain coliforms. This equates to zero non-compliance.

Routine compliance samples for bacteriological analysis are taken at the outlet of each of our treated water service reservoirs every week. Out of the 8,161 samples taken, only one was found to contain coliforms. This equates to a compliance of 99.99%.

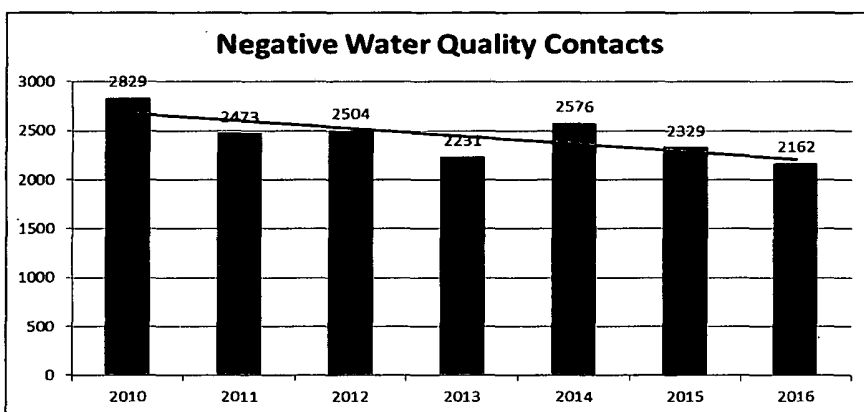
During 2016, no DWI Enforcements Orders were served associated with bacteriological quality at treatment works.

Water is good to drink

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

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

We received 2,162 NWQCs during 2016, which is positively much lower than our ODI target of 2,409.



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

Highly reliable

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

Reliable supply

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

This is one of our key targets because the impact of supply interruptions is most keenly felt by our customers. Despite the fact that we receive high levels of satisfaction and praise from customers in how we

STRATEGIC REPORT (continued)

manage bursts, we are highly incentivised to reduce the time people are without water and are focusing on initiatives to improve this score.

For 2016/17 we recorded a total of 13.1 minutes lost per property, which is in line with our target. Despite a 35% increase in the number of burst mains during the period, compared with 2015/16, the level of interruption to supply has been managed through a high proportion of live repairs and rezoning.

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

Resilient supply

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

Improving resilience was one of the key outputs for the capital investment programme of AMP5 and continues to be a key output in AMP6. As part of our AMP6 programme, we are further reducing the number of customers at risk from 288,589 to 9,063, by undertaking a major scheme to construct 30 kilometres of new mains to reinforce and support our southern supply area. Site works started in September 2016 and pipe-laying commenced in December 2016. By the end of March 2017, 7.1km of pipe had been installed representing 24% of the total and the project is on schedule to meet the deadline of 31st March 2018.

This is an immensely complex and challenging project with an extensive stakeholder engagement programme to ensure amongst other things, that environmental issues are being address and impact to the local area and customers is mitigated.

Sufficient supply

One of our customers' most important requirements is an unrestricted water supply. Our performance of this is measured by our level of service on the frequency of supply restrictions during periods of water shortages, and Ofwat's Security of Supply Index (SOSI). SOSI is the ratio of water available, plus regulatory headroom, to the forecasted dry weather water demand for the outturn year. If a score of less than 100% is calculated, this would indicate that there could have been a higher risk of water use restrictions for our customers that year. We are pleased that for 2016/17 our SOSI value was 100%, indicating sufficient supply with no restrictions. It has been 26 years since we have had a hose pipe ban, and although in 2016/17, we received just 59% of the long term average rainfall; our combined reservoir storage had reached 94% by the end of March 2017. This was due to effective operational management by the Company in response to dry weather conditions.

Environmentally sustainable

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

A good example of our efforts in this area is our creation of the Bristol Water Bar in 2016, a pop-up bar that gives people free drinking water at events and festivals across its supply area. In May 2017, the Water Bar won the Community Project of the Year and Outstanding Innovation Awards at the Water Industry Achievement Awards. The Water Bar featured at three different public events in 2016: Bristol Pride, Redfest and the Bristol International Balloon Fiesta. Over 16,000 people refilled over the summer with nearly 12,000 plastic bottles saved from going to landfill at the Balloon Fiesta alone. At Redfest, it was one of the key environmental features of the event. The Water Bar will be back 'on the road' in 2017 at a wide range of events and festivals.

Efficient use of resources by the Company

Leakage

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

STRATEGIC REPORT (continued)

Our continued outperformance against these challenging targets, despite higher burst levels in 2016/17, is driven by our strong commitment to drive leakage down, and we go into this in greater detail in our report 'war on waste' on page 25. The combination of targeted investment in our network, improved monitoring and control, and our proactive approach to leakage management and leakage reduction initiatives, such as pressure management, continues to see us actively working to reduce leakage levels further. See page 16.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Leakage - million litres of water per day (ml/d)	43	42	44	45	44	46
Target	51	50	49	49	48	47

Pumping efficiency

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

Efficient use of resources by customers

Metering

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

Household meter penetration for 2016/17 is 49.6%, up from 47.3% in 2015/16. However, this is lower than our target of 54.4%. We have seen a reduction of approximately 25% in the level of meter optant requests, where customers request the installation of meters. We are continuing with our selective household and non-household metering programmes and will continue to monitor our meter penetration against our AMP6 targets.

In October 2016 we introduced an extension to the change of occupier metering programme and increased the number of surveyors. We target all properties which are subject to ownership changes. The programme extension has resulted in almost 4,000 meters being installed under this programme within 2016/17, which has increased by 2,500 from the previous period. A metering action plan has now been introduced with the aim to meet the 2020 penetration target of 66% and reduce the current deficit in meters to be installed.

Average water consumption per customer per day (per capita consumption "PCC") for 2016/17 was 144.1 litres per person per day which is 0.4 litres below the target figure of 144.5 litres set at PR14. Both the unmeasured PCC (+1.5%) and the measured PCC (+4.2%) have shown an increase of demand from 2015/16. This increase is attributable to the dry weather during the year, with 9 of the 12 months seeing below average rainfall, which leads to customers using more water for gardening.

Sustainable environmental impact

Total carbon emissions

One key measure of our environmental impact is our carbon emissions. We use almost 81.4 million kilowatt hours of electrical energy to treat and distribute water. This accounts for almost 90% of our total carbon footprint. We can play our part in reducing the carbon emissions associated with energy use by improved pumping efficiency; reducing leakage and helping our customers use water more efficiently. This, together with improved energy efficiency of our buildings and vehicle fleet, and development of renewable energy sources, enables us to manage those aspects of our carbon footprint that we can control.

We take part in the Carbon Reduction Commitment, a UK initiative for large energy users to cut their carbon footprint. Our carbon footprint has reduced over the year from 41k tonnes of CO₂ equivalent to 38k tonnes of CO₂ equivalent.

STRATEGIC REPORT (continued)

The new Southern Resilience Scheme is one of our biggest engineering projects and we will use gravity, rather than pumping, to move water from Barrow to Cheddar.

Our on-going energy efficiency programme continues to work on improving management of water sources and pumping. Water Efficiency measures and promotional activities can help our customers save water and reduce their water use by a total of over 1.5m litres during the year.

Total annual quantity of emissions (in tonnes of CO2 equivalent) resulting from the combustion of fuel and the operation of any facility where we burn diesel or heating oil (direct scope 1 emissions) was 1,507 tonnes.

We use the Standard Water UK calculation methodology to calculate our carbon emissions shown below as a normalised "kg CO2 per Ml of water into supply". This measure has reduced significantly since 2010 thanks to our use of renewable energy, our energy efficiency programmes and a national reduction in the carbon emissions associated with energy use - which accounts for over 90% of our total carbon footprint.

- 2010/11 435.0 kg/Ml
- 2011/12 422.5 kg/Ml
- 2012/13 384.3 kg/Ml
- 2013/14 384.1 kg/Ml
- 2014/15 398.3 kg/Ml
- 2015/16 375.3 kg/Ml
- 2016/17 343.4 kg/Ml

Renewable energy: Our Purton solar photovoltaic system has continued its successful operation and in the last twelve months has produced 1,218,381 kWh of sustainable electricity, used at our treatment works at Purton. This has resulted in a carbon saving of over half a million kilograms of CO2 in 2016/2017.

Raw Water Quality of Sources

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

Biodiversity Index ("BI")

Protection and enhancement of our natural environment is now being supported by our new Biodiversity Index approach. This approach looks to protecting and enhancing the natural environment by first measuring the value and benefit of our own sites and using the Biodiversity Index to quantify the impact of our actions on the broader environment. This calculation and method is a tool we are still developing, but we are able to use it to measure how we are performing in terms of habitat protection and enhancement.

This year we have been applying the Biodiversity Index to the Southern Resilience Scheme. The scheme is being scored before and after works take place at sites from Barrow, south to Cheddar. Working with our partners such as Avon Wildlife Trust, local schools and land owners we have proposals for the creation of new habitats which will improve the biodiversity and support wildlife across a wider stretch of our landscape.

STRATEGIC REPORT (continued)

Environmental Discharge compliance

This measure is assessed on a calendar year basis and so relates to 2016 performance. We monitor all of our discharges which have been consented by the Environment Agency. Over 95% of the samples we took were fully compliant with the discharge consent conditions. Of the failures recorded over half of them were associated with the various discharges at Barrow Treatment Works. Our Solutions Engineering Team is in the process of evaluating the most appropriate means to address the issues leading to these failures.

LEAKAGE REPORT

War on waste

Our proactive and innovative approach to leakage is continuing to have a positive impact on our performance and maintaining our status in the industry top five for this key regulatory target. This year we have achieved 46.4 mega litres per day, below our target of 47ml/d for 2016/17. See page 16.

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

For 2016/17, leakage levels were maintained marginally below the control curve throughout the spring and summer, but started to rise in the late autumn. Cold spells in the end of November and January resulted in higher than desired leakage levels and during this period the Severe Weather Task Force was deployed to deal effectively with the excess leakage. Additional leakage detection resources were deployed during Jan-Mar 2017 to reduce leakage levels back to the control level.

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

In the last year we have replaced 12km of the distribution mains network that was in poor condition and repaired around 4,500 leaks on our system, including 1,034 burst water mains. In addition to the leaks repaired on our network, we also identified in excess of 1,600 leaks on private customer service pipes, providing free or subsidised repair of these private leaks in more than a quarter of cases.

Leakage detection

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

Our team of 25 Leakage Inspectors have a range of skills and equipment at their disposal. They select the appropriate method of leak location depending on the situation, but the techniques that are predominantly used are isolations (splitting the DMAs into smaller network elements when leakage is suspected), leak noise sounding using listening sticks, and leak pinpointing using analogue and digital correlators.

For this reporting year 98.2% of all properties are under continual night flow monitoring in 397 District Meter Areas. On average approximately 336 (92%) days of valid night flow data was obtained for these areas and used to determine average night flow levels, which enables us to pick up any anomalies early.

While active leakage control is industry standard, we are helping develop advanced network management through a five year collaboration with Imperial College London and Cla-Val. The Dynamic Meter Area project is being tested in Bristol and is enabling us to monitor and meet water demand across the city by using advanced pressure, flow monitoring and leakage management.

We are continually exploring new ways of improving on current practices and provide step changes in leakage control, including the use of satellite imaging to assist in detecting leaks.

STRATEGIC REPORT (continued)

A vast program of pressure management was implemented under the previous AMP programme, starting in 2008-09. This scheme involved the investigation, implementation and commissioning of new control valves aiming to reduce background leakage and burst rates. The outcome of this project resulted in 72 new schemes being introduced, with additional pressure optimisation of existing schemes. A new phase of a program of pressure management and control has now commenced, and a consultation started in February 2017 with the investigation of approx. 50 schemes for implementation of new pressure management areas. Implementing the most beneficial 15-20 schemes in 2017/18 will increase the coverage of pressure management to almost 65% of the properties in the Bristol Water supply area.

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

Having achieved so much in the last two AMPs our targets are now set to help us achieve a more gradual and sustainable drop in leakage levels. This is essential in order for us to deliver an economically viable leakage management programme to benefit the business, our customers and the environment. To support the "War on Waste" a Leakage Action Plan was introduced in October 2016. This multi faceted action plan covers a number of key areas to reduce the overall run-time of leaks, and targets specifically the Awareness, Location and Repair time elements of the overall run-time. A key element of this Leakage Action Plan is the assessment of the Sustainable Economic Level of Leakage, a project undertaken by an external consultant.

BEST PEOPLE, RIGHT CULTURE

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

Attracting and retaining the best people

Resourcing

We have established a Resourcing Delivery Team which has enabled Bristol Water to have 'the Right people, in the Right place, with the Right experience, at the Right Time'. Dedicated to developing a resource strategy that fits the needs of the business, securing our future, the team are focusing on time, cost and quality within the hire process. The Resourcing Delivery Team are also working hard to ensure that Bristol Water is seen as an 'employer of choice', continuing to develop our employer brand within the external market place.

With the advancements of our IT capabilities, the team have re-developed the careers micro-site alongside a new Applicant Tracking System (ATS), mirroring our employer brand, focusing on the candidate experience to retain that strong brand presence and attract the best talent.

Training

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

We have established a dedicated function within the People, Health and Safety directorate to focus on delivering a comprehensive learning and development strategy. This will ensure that all of our people are trained to the required standards and also have personal development opportunities. We are improving our training records to reflect and track all required training and developing training matrices to ensure that people are safe and trained sufficiently for all required activities.

STRATEGIC REPORT (continued)

Development

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

Reward

We have recently introduced the Towers Watson (TW) Global Grading System following a transition to our new operating model. The TW system enables us to benchmark our reward proposals to ensure that our people are fairly rewarded and that we remain competitive in the marketplace, attracting and retaining top talent.

Culture

In the past we have conducted Employee Engagement Surveys to give everyone an opportunity to provide feedback on how they feel about working for Bristol Water. The survey was not possible last year due to the on-going company restructure, so we conducted regular "temperature checks" with our employees – short surveys on specific activities within the Company. This gives us valuable insights into how our employees are feeling and where we can make improvements.

The Company systematically provides employees with information on matters of concern to them, consulting them or their Union representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

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

Safe working practices

The health and safety of our employees, contractors and members of the public remains of paramount importance. We continually invest in our people ensuring that they have the right skills, knowledge and training to work safely ensuring their own safety and that of others. We work closely with our contract partners striving to ensure we all have the same vision and are working to achieve the same health & safety goals. All individuals who work for us, directly or indirectly, undergo health and safety induction training, this knowledge is supported by a Code of Conduct booklet which sets out the positive health and safety behaviours that we expect. Regular health and safety committee meetings are an important avenue for consulting with representatives from across the business, where risks and issues are reviewed and appropriate actions agreed.

We have increased our focus and internal communication on hazard reporting and hazard elimination to identify potential hazards before they become realised. This targeted approach has seen a positive impact on our accident performance numbers with a significant overall reduction being realised. Our continued aim is to reduce reportable accidents to the HSE to a minimum, which means applying a continuous improvement process across the whole company so there is total commitment from all employees and contractors.

Whilst there is no way to totally eliminate risk, Bristol Water is a safe place to work. During 2016/17 we have seen a 33% reduction in the number of staff accidents, during this time we have also seen an improvement in minimising contractor injuries. Reduction in accident numbers continues to be an area of focus to ensure that overall trends are improving and best practice is implemented. In 2016/17, one accident was reportable under the RIDDOR regulations to the HSE; this was an over-seven-day injury.

STRATEGIC REPORT (continued)

Sustainable business

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

In 2014/15 we launched Project Channel, a business efficiency improvement programme designed to adapt Bristol Water to AMP6 requirements and opportunities, which included working under TOTEX (Total Expenditure – operating costs and capital costs) and outcomes as well as the delivery of enduring efficiencies to meet the demands of the modern water sector. As part of this programme, during 2016/17 we have:

- Finished the internal re-organisation to help the Company be a leaner and more balanced organisation as well as develop new capabilities, improving morale and staff engagement
- Delivered significant initiatives such as the new risk process within Asset Management and the continuous improvement pilots as part of Ways of Working.
- Achieved additional savings ahead of the annual target; two areas where savings have been achieved are energy and transport.

We are committed to ensuring we are always operating at our best, we actively seek to foster a culture of continuous improvement to:

- Support the efficient delivery of water services to our customers
- Empower our people to contribute to the success of our company

During 2016/17, our Business Improvement team launched a series of initiatives across our New Mains, New Supplies, Water Quality, Standpipes and Transport teams to embed process optimisation tools, techniques and expertise.

To support these initiatives, we trained and accredited 42 staff in Lean Competency System fundamentals (a process optimisation approach originally developed at the Lean Enterprise Research Centre at Cardiff University).

The initiatives are on-going and target a range of benefits of our customers, stakeholders and investors. Some examples of the improvements we are making will:

- Improve our first time resolution for customer enquiries
- Improve the usability of our website
- Reduce the manual effort associated with some of our processes
- Increase the skill set of our staff
- Reduce backlogs in cash flow
- Simplify how we pay our suppliers

Investor confidence

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

STRATEGIC REPORT (continued)

Fair return to investors

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

Our return on regulated equity (RORE) was 5.25% in 2016/17, an improvement from 2015/16's comparable RORE of 3.94%, but slightly lower than the 5.8% assumed in our Final Determination which included significant challenges. The improvement mainly relates to two areas. The first arises from £1m lower ODI penalties at £0.2m earned during the year, the only penalty being in respect of meter penetration. The second was a £1.2m closing of the gap between the actual interest on debt (in real terms) and that allowed in the Final Determination.

Highly reputable

In order to obtain the views of other stakeholders we annually survey a randomly selected group of people including Regulators, MPs, other utility companies, businesses and a range of partner organisations including local and regional government. We have carried out in-depth interviews with a sample of key stakeholders, who are asked their views on how well we perform in a number of key areas. Due to the changes in the Non-Household Retail Market survey respondents will change accordingly next year.

In 2016/17 we conducted 34 in-depth interviews but in addition we have carried out a more robust online survey, this received 384 responses, up from 271 responses in 2015/16. Of 418 total respondents, 86% rated the services we provide as excellent, very good or good, up from 83% in 2016.

We also asked stakeholders view on our reputation with 66% citing a positive response, up slightly from 64% in 2016. 75% also rated the quality of our communication as excellent, very good or good, an increase of 7% on 2015/16's survey.

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

The in-depth interviews provided overwhelmingly positive, detailed feedback on the Company's performance and reputation over the last year. Encouragingly, Bristol Water was highly regarded by virtually all of the in-depth interview respondents, who were selected because of their status as key influential stakeholders who had regular and current contact with the business. There were a small number of stakeholders, where our relationships have been historically more challenging and, despite significant progress, we need to continue to build more positive interactions. Equally a number of stakeholders commented that the culture of Bristol Water was changing, there were continuing improvements in communications and as a company we remain helpful and 'easy to deal with'.

We were consistently praised throughout the interviews for being reliable and easy to contact, providing high-quality services and dependable at all levels.

STRATEGIC REPORT (continued)

FINANCIAL KPIs

For the year ended 31 March 2017

	2017	2016
	£m	£m
Turnover	111.0	110.9
EBITDA	50.8	55.3
Operating profit	31.3	36.1
Profit before tax	20.9	27.8
Profit after tax	20.0	28.6
Net debt (excluding 8.75% irredeemable cumulative preference shares) at 31 March	295.6	290.8
Regulatory Capital Value (RCV)	470.7	441.2
Ratio of net debt (excluding 8.75% irredeemable cumulative preference shares) to RCV	63%	66%
Capital investment before grants and contributions	38.8	30.1

Turnover of £111.0m is consistent with the previous year.

EBITDA fell by £4.5m reflecting higher costs. Of this, £3.0m relates to the curtailment gain on the closure of the defined benefit scheme in 2015/16. Adjusting for this one-off effect, our costs increased by £1.5m reflecting inflationary increases, an increase in electricity costs and higher operational costs due to significant bursts offset by cost savings achieved through our efficiency programme. A risk-based, proactive analysis of need, solution options and timing of expenditure has been introduced that has led to a significant reduction in network and production costs as well as cost savings in central management costs.

Operating profit decreased by £4.8m reflecting the £4.5m decrease in EBITDA and a £0.3m loss on disposal of assets.

Profit after tax decreased by £8.6m to £20.0m, the reduction is driven by higher interest costs of £2.1m (due to higher indexation charges) and an increase in total tax of £1.7m. For the current year, there is an overall tax charge of £0.9m compared to an overall tax credit of (£0.8m) last year. During the year, future corporation tax rates fell from 18% to 17% which gave rise to a £3.3m credit to deferred tax. The overall effective tax rate was 4% (2015/16: -3%). The principal reason for the effective tax rate being lower than the standard corporation tax rate of 20% (2015/16: 20%) is the effect of the rate change on the opening deferred tax balances during the year.

Our tax strategy, which was approved by the board, is published on our website.

Net debt

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

Net debt excluding the 8.75% irredeemable cumulative preference shares was £295.6m (2015/16: £290.8m), representing approximately 63% (2015/16: 66%) of the RCV of £470.7m (2015/16: £441.2m). The increase in RCV reflects an increase due to indexation of £13.9m and net additions to RCV during the period of £15.6m.

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

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

STRATEGIC REPORT (continued)

Cash, including deposits with banks, was £16.1m (2015/16: £18.0m), the significant cashflows during the year were:

- cash inflow of £49.9m from operations,
- cash outflow of £35.7m for capital expenditure,
- cash inflow of £3.8m for contributions received,
- repayment of £0.3m debt and issue expenses £0.3m,
- base level dividend of £6.0m, which includes payments made in advance of the opening of the non-household retail market due to structural changes in working capital requirements between retail and wholesale businesses,
- inter-company loan interest related dividend of £3.2m,
- net interest payments of £8.8m, including £1.1m preference share dividend payments, and
- corporation tax payment of £1.4m.

Dividends

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

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

Total base level dividends and dividends in respect of the inter-company loans paid during the year were £6.0m (2015/16 nil) and £3.2m (2015/16: £3.2m) respectively. Base level dividends included a £4m payment in advance of the opening of the non-household retail market in April 2017, due to the structural changes in working capital requirements between retail and wholesale businesses.

In addition, annual dividends of £1.1m (2015/16: £1.1m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the balance sheet, and the dividend is therefore shown as a finance cost in the income statement.

Pensions

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

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

The latest triennial valuation of the pension scheme was completed as at 31 March 2014. The total deficit as at 31 March 2014 measured on a long-term scheme funding basis was £2.8m. This represented a funding level of 98.4%. The next triennial valuation will be at 31 March 2017 however the draft results of this valuation will not be received until Autumn 2017.

From 1st April 2016, there are no employer contributions to the scheme. Subsequently, the Trustees agreed that deficit contributions, previously of £0.4m per annum, would cease on 30th June 2016.

STRATEGIC REPORT (continued)

The actuarial valuation under International Financial Reporting Standard 19 (IAS 19) and therefore FRS101 at 31 March 2017 shows a net pension surplus of £32.3m which has been recognised in the financial statements (2015/16: £31.9m). The funding deficit of £2.8m and the accounting surplus of £32.3m are not comparable because:

- the funding deficit is based on a position at 31 March 2014 and the accounting surplus is based on a position at 31 March 2017, and
- the approach for valuation of scheme liabilities in the financial statements is very prescribed by accounting standards

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

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

Capital programme

During the year, we invested £38.8m (2015/16: £30.1m) in capital expenditure before contributions. The capital spend in 2016/17 was significantly higher than the prior year reflecting the increase in activity to meet the AMP6 capital programme; although significant progress has been made this year, we plan for further increases in capital expenditure as our key projects for AMP6 move from planning to delivery.

Capital investment during the year included the following key projects:

- Construction of the Southern Resilience Scheme which is our biggest scheme for AMP6. Work has started on the 30km of trunk mains from Barrow Treatment works to Sandford and Cheddar to Banwell.
- Replacement of 11.2km of the distribution mains network that was in poor condition.
- Upgrading electro chlorination processes at treatment works
- Meter replacements including smart meter roll out
- Development of IT infrastructure for Non Household Retail Separation
- Implementation of UV treatment at Barrow
- Continuation of the National Environment Programme investigating the presence of invasive species and the protection of eels.

In addition to the schemes listed above, we have also started algae removal investigations at Cheddar Treatment Works

STRATEGIC REPORT (continued)

RISK AND UNCERTAINTY

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

Risk management framework

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

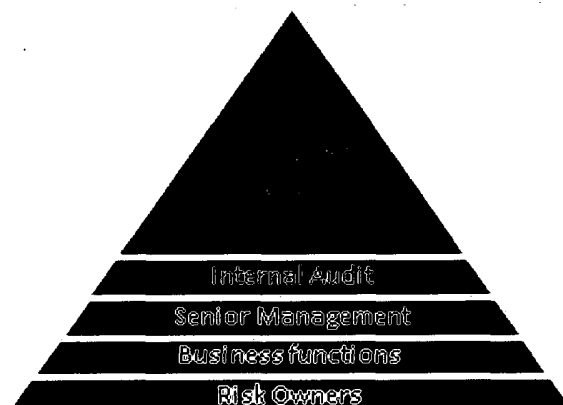
Our ERM framework is based on four core principles which establish the culture and tone that guide risk management decisions. Risk management is:

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

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

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

STRATEGIC REPORT (continued)



Risk management processes

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

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

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

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

STRATEGIC REPORT (continued)

Principal risks and uncertainties

The table below lists the principal risks and uncertainties facing the Company at the date of this report and the mitigation that we have in place to manage the impact of these risks upon the business. This list is not exhaustive. Some risks have not been included in this section on the basis they are not considered material.

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

Risk and description	Impact	Monitoring and Mitigation
Water Quality, Health and Safety and Environmental incident risks are operational risks concerning failure of our mitigations and controls to prevent an accident, pollution or water quality incident.	Incidents and accidents could have harmful impacts on employees, the communities that we serve or the environment, leading to reputational damage, penalties and remediation costs resulting in lower net income.	We minimise our incident and accident rate by following approved procedures, monitoring adherence to these procedures, proactive asset maintenance and providing adequate training.
Major incident risk is an operational risk associated with the significant failure, or prolonged loss of use, of a key operational asset or location.	Major incidents could impact our ability to supply water for prolonged periods and may have harmful impacts on the environment and communities we serve leading to reputational damage, penalties and remediation costs resulting in lower net income.	We assess and improve resilience to reduce the population exposed to major disruptions to water supplies. We also undertake exercises and training, developing business continuity plans to minimise customer impact, as well as being fully compliant with S10 & S12 of the Reservoir Act.
Regulatory submissions & compliance risks are strategic risks, which cover price determinations and our Water Resource Management Plan (WRMP).	The price determinations periodically made by Ofwat limit the prices the Company can charge its customers. WRMPs set out how we intend to meet customers' water needs over the next 25 years, and are therefore closely linked to subsequent price determination submissions.	We have dedicated internal resource focused on these key submissions, supplemented by external input as required, and with appropriate governance in place. We have also conducted internal and external reviews of our approach to PR14 to identify key learning points for future submissions.

STRATEGIC REPORT (continued)

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

Risk and description	Impact	Monitoring and Mitigation
Funding and Investor confidence risks are strategic risks concerning the ability to access timely and cost effective debt or equity to support our capital expenditure programme and replace maturing debt.	Inability to access cost effective debt or equity could result in higher interest costs, lower cash flow or liquidity difficulties.	We maintain good relationships with our equity and debt investors through regular performance reporting and communication. We closely manage our funding and debt servicing, maintaining sufficient liquidity to meet 12 months' funding requirements.
Water Resource risks are strategic risks, which include planning for increased population and demand for water, together with climate change and extremes in weather.	Inability to maintain water supplies by underestimating the demand for water in comparison to the resource available.	We maintain Water Resource Plans to manage long term water resource risk, allowing us to develop risk resilience. We encourage customer metering, promote efficient use of water by customers, and we actively manage leakage to control wastage from our system. We maintain business continuity plans and on-going monitoring of resource levels to manage residual exposures.
Change in regulatory regime is the regulatory risk of changes in the Regulatory Regime adversely affecting us, including the introduction of Retail competition, Upstream separation and Abstraction reform.	Favourable changes can create new opportunities for greater efficiencies, while unfavourable changes can reduce efficiency, increase costs and have harmful effects on employee and customer relations. The abstraction reform may also affect the Water Resource risk.	We monitor and maintain active dialogue with policy makers to identify opportunities and respond to any legislative changes to minimise the impact. In respect of Retail Competition, we have successfully made changes to our businesses which allow us to interact with the new NHH retail market.
Expense management risk is the financial risk concerning unexpected non-recoverable increases in costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	We mitigate this risk by following policies, procurement strategies, efficiency initiatives, and reducing exposure / hedging where appropriate.
Customer Satisfaction is a reputational risk in relation to meeting customer service expectations.	Delivery of good customer management practices is aligned to our corporate strategy, and can reduce negative customer feedback and result in financial reward through the pricing mechanism. The opposite is also true.	We mitigate this risk by following policies and procedures in support of our "Bristol Water Bond". We perform monthly surveys to assess customer satisfaction and communicate with the public through a variety of media. We have a flexible approach to dealing with specific incidents, for example extending call centre hours.

STRATEGIC REPORT (continued)

Risk and description	Impact	Monitoring and Mitigation
Supply Chain Failure is an operational risk of not being able to maintain supplies of key materials or services.	Failure to maintain key supplies may result in an inability to operate specific treatment processes, increasing the risk of supply interruptions.	We operate procurement processes to reduce exposure to a single supplier and seek treatment solutions which avoid supply chain failure risk, within our investment strategies.
Asset management risks are operational risks relating to managing and operating our collection, treatment and distribution assets.	Inability to manage asset risks effectively may result in increased supply interruptions, resulting in additional costs and reduced customer satisfaction.	We prioritise maintenance plans based on performance monitoring, inspections and key exposure assessments.
Capital investment evaluation and delivery is a strategic risk concerning our ability to invest effectively and efficiently.	Inability to evaluate and deliver the capital programme may result in inefficiencies and potential financial penalties through the pricing mechanism where performance targets are not achieved.	We control the evaluation risk by following policies and procedures to assess and authorise appropriate solutions. We control the delivery of the programme through a controlled gateway project management process from feasibility to completion.

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

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

STRATEGIC REPORT (continued)

Long Term Viability Statement

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

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

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

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

The Company's business plan, developed following the CMA outcome covering the period to March 2020, is regularly assessed and updated to reflect the Company's current and future performance. The assessment considers operational performance (against the Company's performance commitments), financial performance (future cash flows, financing options, and key financial ratios) and the economic outlook (interest rates, inflation rates, input price pressure). It also takes account of the funding we have available to us. The Company currently has cash of £16m available and committed borrowing facilities of £70m and is well placed to respond to the near future events,

The revised business plan has been stress tested to assess the potential impact of the Company's principal risks and uncertainties and the effectiveness of available mitigating actions. Risks that have been assessed include high inflation, interest rates and costs, tested in severe but plausible combinations.

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

In respect of the longer-term, we are developing our business plan for AMP7 and are confident that we can deliver the improvements our customers want through cost effective solutions, using innovative approaches. We therefore consider we are well placed to meet the challenges that our customers and regulators will expect of us.

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

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

STRATEGIC REPORT (continued)

Our external auditors, PricewaterhouseCoopers, set out the extent of their review of our viability statement in their audit report on page 119.

OUTLOOK

The main drivers of 2017/18 profitability are expected to be:

- treated water revenues – these are expected to increase from 2016/17 due to inflation (2.2%), the wholesale K-factor (0.5%) and correcting for some of the under-recovery of revenues in prior years.
- operating expenditure ("opex") – this is expected to increase slightly in 2017/18. Increases are expected in employments costs (due to the new target operating model being fully implemented), power costs (due to price increases), and periodic review costs (due to activity ramping up ahead of our PR19 submission in 2018/19). Management is committed to achieving improving efficiencies across the business;
- inflation or deflation – operating costs, capital expenditure and the Company's index-linked debt are subject to inflation based on RPI at various points in the year. Potential adverse impacts of high inflation or deflation are mitigated by the linking of the majority of revenues through the previous year's November RPI;
- energy costs – energy costs are significant for the Company; spot power costs are constantly changing in line with crude oil and gas markets. Management expects costs to remain volatile in the future and to mitigate the effect of adverse movements the Company's policy is to monitor prices and enter into appropriate forward contracts to "lock in" future supply prices. The Company has fully hedged its exposure to energy commodity costs for 2017/18;
- socio-economic conditions – significant changes in the socio-economic conditions of customers may impact upon recovery of billed amounts;
- weather – severe weather patterns can affect the profitability in various different ways. Measured income can be affected by changes in volume consumption, chemical and power costs can be affected by raw water quality and availability of different water sources; and
- network maintenance costs can be affected by mains burst activity.

Capital expenditure for the 2017/18 year is expected to increase significantly. Key schemes include the completion of the Southern Resilience Scheme and the continuing programme of trunk mains relining and mains replacements.

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



Mel Karam
Chief Executive Officer
13 July 2017

CORPORATE RESPONSIBILITY REPORT

We understand that our activities can have an impact on the communities that we serve and the environment that we steward. We passionately work towards having a positive impact on the environment and stakeholders including customers, employees, investors, communities, and others. We seek to minimise the impact of our operational activities by delivering services responsibly and sustainably whilst managing the social, environmental and economic impacts of supplying quality water for our customers now, and for the future. Our reputation is important to us and that extends to being good to do business with, and to work for.

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

Customers

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

Customer Service

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

For the second year running we have taken part in the Institute of Customer Service (ICS) 'National Customer Service Week' giving employees a chance to experience other's roles through job shadowing and workshops. There were also daily tests and light hearted tasks that created a charged competitive atmosphere and some great team work.

As part of our commitment to improving the culture, we also took part in the ICS national survey to benchmark our service against others, from the retail giants to other utilities. We also conducted our first ever ICS internal survey to help us understand what our customer-facing staff genuinely think about our processes, culture and strategic direction. This all took place in January 2017 the results were excellent. UK Customer Satisfaction Index (UKCSI) is a national measure of customer satisfaction. It assesses over 30 measures of the customer experience in 13 sectors for over 200 organisations. On the UKCSI, we achieved a score of 83.6% compared to a utility industry average of 74.4%. We will create a small working group as part of the Customer Service Working Group to assess how we can maintain these high scoring results and improve on them for next year.

Our customers' opinions are very important to us and we seek feedback and measurement across multiple channels: from feedback cards after work has been carried out; to monthly follow-up surveys for customers who have been in contact with us; to an annual survey of 1000 customers; to our quarterly online panel called 'Let us Know' which regularly receives in excess of 1000 responses. The customer feedback we gain from these channels has resulted in us making real operational changes to benefit customers.

As we are working on our new Business Plan for 2020-2025, more customers are also being approached and consulted with to help ensure that we understand their priorities and willingness to pay for different aspects and levels of service.

Every water company has a customer challenge group who holds them to account on performance and provide on-going assurance to Ofwat. We have fully embraced our Customer Challenge Panel chaired by Peaches Golding OBE, who also holds the position of Lord Lieutenant of Bristol. The Customer Challenge Panel ensures that the customer's voice remains at the heart of Bristol Water's decision making. The panel monitor delivery by Bristol Water of its current commitments to customers and help develop our business plan proposals to ensure they reflect the views of customers as well as the interests of other stakeholders and the environment.

CORPORATE RESPONSIBILITY REPORT (continued)

Customer communications

The infrastructure that is required to deliver water is large and complex, including our raw water reservoirs, treatment works, pumping stations and storage reservoirs. With nearly 7000KM of mains connecting this infrastructure to the homes and businesses in our supply area, there's a lot of maintenance, renovation and new mains laying required and this can impact customers through supply issues or roadworks.

In the case of planned work or unplanned emergencies, we keep customers informed and updated by letter, door drops, text messaging to mobiles and landlines, our website and Twitter. We also recognise that others can be affected indirectly through road congestion and always look at ways of maximising our reach through radio, social media and signage.

For large projects like the Southern Resilience Scheme we attend public and council meetings and use our mobile Customer Service Unit to host drop in sessions which we publicise in advance to the local community or special interest groups.

For day to day issues our Bristol-based Operational Call Centre deals with incoming calls and emails; there were 30,901 calls received in 2016/17 by our staff.

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

- Website: this received 350,847 page views
- Text messaging to mobiles and landlines to warn of operational issues: we sent 49,016 in 2016/17
- Letters: 30,131 sent to customers about the Southern Resilience Scheme, notifying of works and updates
- Twitter – our followers have risen by 80% in a year to over 1800
- WaterTalk – our annual customer magazine is delivered to more than 510,000 homes in our supply area providing a valuable opportunity to communicate with the majority of our customers

Support for customers

Our work to support customers struggling to pay their water bills has continued over the year with a proactive approach to customers who may potentially benefit from the social tariff and payment schemes we offer. We assess customers on an individual basis and look to tailor the package of assistance offered to their needs, and work closely with Wessex Water, our joint venture billing company BWBSL and local and national debt advice agencies to support vulnerable customers and develop policies and tariffs that are responsive to societal needs.

The number of customers receiving assistance through these measures has increased by 23% since last year, to a total of 14,370. We have donated £75k to debt advice agencies across our supply area to help them provide free advice to our customers, and attended numerous public events to support these agencies in the community.

Environment

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, and encourage our customers to do the same.

Saving water is good for both our customers and the environment as it reduces customers water and energy bills and also reduces our energy consumption and our carbon footprint. We encourage customers to use the 'Save Water Save Money' service, which is promoted and accessed through our website. This provides guidance on water use and potential savings that can be made by fitting a range of water saving devices and other equipment, most of which can be ordered for free. In 2016/17 nearly 27,000 devices have been distributed which have helped our customers to save nearly 190,000 litres of water every day.

CORPORATE RESPONSIBILITY REPORT (continued)

One of Bristol Water's key aims is to be environmentally sustainable. A measure of this success is to demonstrate a quantifiable improvement in biodiversity. An innovative approach called the Biodiversity Index (BI) has been developed to manage and monitor our effect on the environment, and to help the Company improve the resilience of the environment by creating an improvement to its current status. This new approach is designed to quantify the biodiversity at company sites.

Commencing in AMP6, during engineering, maintenance and routine works, an appropriate amount of offsetting must take place following these works to mitigate and improve impacted environmental features. Enhancement works can either be on that site or offset to another site. This is a culture change at Bristol Water, and this new way of working has been integrated into the decision making processes and is now a requirement for all works we undertake.

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

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

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

We are continuing the work we started in AMP5 on metaldehyde, with catchment management now a requirement under the National Environment Programme. In late 2014 we formed the Mendip Lakes Partnership, comprising Bristol Water, Natural England, Environment Agency, Catchment Sensitive Farming and Avon Wildlife Trust, to bring together organisations with an interest in improving environmental management across the Mendip catchments. This partnership is now supporting the farming sector in the Mendip Lakes catchments, who are keen to protect water quality in the rivers and reservoirs, improve soil management and enhance local wildlife.

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

Southern Resilience Scheme ("SRS") habitat protection

Great-crested newts

In the Mendips and across the North Somerset Levels, we have been trapping great-crested newts in order to protect them from our construction activities. In Autumn 2016, 34 newts were trapped and relocated out of harm's way, with trapping recommencing in Spring 2017, when they come out of hibernation. This area provides significant habitats for newts and so it is essential that we also protect as much of their environment as possible during our work.

Dormice

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

CORPORATE RESPONSIBILITY REPORT (continued)

Cave spiders

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

Bats

Work in the tunnel was also suspended after we discovered bats living there. Our works will be undertaken taking due care of the bat habitat and is under licence from Natural England. We have installed bat boxes outside the tunnel entrance to give the bats a home during our works and will allow the bats to return to the tunnel once we have finished our work.

Bee orchids

Our engineers are currently translocating beautiful bee orchids from fields to a temporary home of subsoil in our compounds. They will be returned to their fields once the construction work has moved on. We will continue to monitor all of these habitats until we are satisfied that they are re-established.

Community

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

In 2016 Bristol Water partnered with a community campaign called Refill Bristol to promote tap water in the city and encourage people to carry refillable bottles rather than buy single use plastic bottle waters. A network of more than 200 refill stations – where you can top up with free tap water – exist to make Refilling easy, but Bristol Water took the concept of Refill further by creating a free water bar that we took to festivals and community events.

The Water Bar doesn't just promote tap water, it elevates our product, making it novel and appealing, and allows our messaging on other subjects to be better received. We were able to speak to customers about water efficiency, metering, leakage and a whole host of other subjects and we estimate that more than 16,000 people refilled for free at our summer events. The water bar won the Bristol and Bath Environmental Innovation Award 2016, Community Project of the Year and Outstanding Innovation awards at the Water Industry Achievement Awards 2017 and Big Bang Innovation award at the Utility Week Star Awards 2017.

We have also been working on our second public drinking fountain – our first was installed in Millennium Square in 2015, and we attracted support from a local Environmental Consultancy called Eunomia to pay for another. This was unveiled by the Mayor of Bristol Marvin Rees in one of Bristol's most historic and prestigious locations – Queen Square. This will not only make our product freely available at one of the city's busiest pedestrian crossroads, it will also help reduce litter and plastic waste.

As a result of this collaboration, we are now working closely with the council's places team on improving other council-owned drinking fountains and a wide range of other water-related projects.

Looking ahead through 2017, we have become an official partner in the Sugar Smart City campaign. This fits really well with our core aims of promoting tap water and healthy hydration and is a really good fit with Refill. We will use the water bar as a platform to promote both campaigns at the biggest city events, and in the new school year we will be working on a water promotion project with the Healthy Schools team in primary schools.

Bristol Water remains committed to supporting community initiatives that meet our criteria of being local, environmental and educational. Last year we funded or offered support in kind in the region of £10k to the likes of the Festival of Nature, Portway Sunday Park, Dundry Slopes Community, Roundhouse, Babbasa Youth Projects and Avon Fire and Rescue. We have also donated a second used van to The Wheels Project, which helps young people from socially deprived areas of Bristol to learn mechanic skills.

CORPORATE RESPONSIBILITY REPORT (continued)

Like many water companies, Bristol Water supports WaterAid as our corporate charity. As well as including a bespoke annual appeal for WaterAid in our bills, we encourage staff to take on fundraising challenges for the charity. A team of 12 took part in the Tough Sh!t 10K challenge and raised nearly £1,000 and we also donated £5 for every response to our annual stakeholder survey, so a further £2,000 went into the pot.

Many other local and national charities have benefitted from staff volunteer days and fundraising at work through dress down Fridays and cake sales. 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.

Employees

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

Following the implementation of our new operating model that saw considerable changes to the structure of the business, we have been reviewing the impact through confidential staff surveys (temperature checks) and will continue to do more of these. We continue to use the results to highlight areas that require additional focus to help ensure that the new model is properly embedded to deliver the efficiencies and improvements required to support the business and our customers now and into the future.

In the last year, we have redesigned our Annual Review appraisal process, to enable all employees to have an opportunity to review their performance, development needs, set new objectives and recognise achievement.

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

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

Improving communication across the entire business has been a key driver this year and we have really stepped up our internal communication capability with new resource, upgrades to our staff intranet and a series of events to increase awareness and engagement around significant projects like non household retail separation and Channel, our internal business improvement programme. One benefit of the size of our organisation is that senior managers have close proximity to all staff. We have increased the time that Executive Directors and senior managers have spent out with our operational employees to listen to and understand their concerns.

A Health & Safety Review has also been started this year that will focus on safety in the workplace, and we will be pursuing a proactive agenda for safety and health, under the "Employee wellbeing" banner, next year.

This year we have completed the Health & Safety Laboratories Climate Tool survey to benchmark safety culture. We used the results to build a Corporate Health & Safety improvement plan to improve our safety culture and the day to day operation of the business. The plan focuses on leadership, engaging our employees, improving our accident and hazard reporting systems as well as areas for improvement specific to each directorate within the business.

To improve leadership with the business, IOSH Leading Safety courses were organised for senior managers and directors. The training establishes a benchmark and is the foundation on which we are building to improve our safety culture. Engaging with employees and our contractors is an important part of this culture. We have set up a programme of regular safety communications passing on lessons learnt from inside and outside the business that are cascaded down to each team providing opportunity for regular face-to-face communications. In December, we ran a Health & Safety Advent Calendar campaign to engage with our workforce; not only to impart work related Health & Safety messages but advice in the home to safeguard our employees and their families over the festive period.

CORPORATE RESPONSIBILITY REPORT (continued)

We have placed an increased focus on hazard reporting, encouraging employees and contractors to report as many hazards as possible. The system provides feedback to anyone raising a hazard at several stages within the process ensuring the reporter is kept informed. This regular communication has encouraged more of our staff to report hazards and that has had a knock-on effect on our accident numbers. The result of investment in our workplace and removing these hazards has seen a year on year reduction in the number of accidents and is helping to deliver our aim of a safe workplace.

We continue to consult with our workforce at our quarterly Health & Safety committee meetings that sees a number of positive actions being taken to address issues raised and we continue to reinforce our five safety codes, the foundation of our safety culture:

Lead by Example, Risk Assess your Task, Be Fit for Work, Be Competent and Communicate.

Suppliers

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

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

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

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

Within Development Services our management structure continues to have two separate customer facing functions, one retail facing and the other wholesale facing to ensure self-lay providers are not being unfairly disadvantaged when it comes to connecting new developments. These changes will help effective competition which can deliver benefits for customers, offering choice and acting as a driver for more customer-focused, efficient and innovative services. We have also moved Development Services into the Customer Services directorate to further develop the customer facing nature of the services provided.

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



Mel Karam
Chief Executive Officer
13 July 2017

BOARD OF DIRECTORS

Keith Ludeman | Age 67

Non-Executive Chairman, Chair of Nomination Committee

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

Mel Karam | Age 54

Chief Executive Officer

Mr Karam joined the Company in April 2017 as Chief Executive Officer. Prior to joining the Company, he was Partner and Global Head of Asset Management at KPMG International leading their work across 25 countries. Mr Karam has over 25 years of experience in asset management and capital delivery in the power and utility sector including Thames and Southern Water.

Mick Axtell | Age 45

Chief Financial Officer

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

Tim Tutton | Age 69

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

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

Robert Davis | Age 69

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

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

Tony Hemus | Age 60

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

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

BOARD OF DIRECTORS (continued)

Tracey Wood | Age 48

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

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

Michael Smerdon | Age 46

Non-Executive, Member of ARAC

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

Hajime Ichishi | Age 42

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

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

Paul Malan | Age 46

Non-Executive, Member of the Remuneration and Nomination Committees

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

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2017.

Financial results and dividends

The enhanced financial review including financial results and KPIs is contained in the Strategic Report on pages 30 to 32.

The total dividend paid during the year ended 31 March 2017 was 153.3p (2015/16: 53.4p) per ordinary share. The Board has not proposed a final dividend in respect of the financial year 2016/17 (2015/16: £1m). The Company's practice for dividends to shareholders is contained in the Strategic Report on page 31.

Capital structure

Details of the issued share capital are shown in notes 19 and 25. The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

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

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

GOING CONCERN

As detailed in the Corporate Governance Report on page 65, 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 20 to the financial statements.

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS

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

K Ludeman, *Chairman*

L Garcia, *Chief Executive Officer (resigned 15 December 2016)*

M Karam, *Chief Executive Officer (appointed 1 April 2017)*

M Axtell, *Chief Financial Officer (interim CEO from 16 December 2016 to 31 March 2017)*

C Curling, *Independent Non-Executive (retired 28 February 2017)*

P McIlwraith, *Independent Non-Executive (retired 31 May 2016)*

R Davis, *Independent Non-Executive*

T Tutton, *Independent Non-Executive*

T Hemus, *Independent Non-Executive (appointed 1 April 2016)*

T Wood, *Independent Non-Executive (appointed 1 January 2017)*

M Bernstein, *Non-Executive (resigned 24 June 2016)*

M Smerdon, *Non-Executive*

H Ichishi, *Non-Executive*

M Anglada, *Non Executive (resigned 15 December 2016)*

P Malan, *Non-Executive (appointed 7 July 2016)*

Messrs Axtell and Davis will offer themselves for re-election and Mr Karam and Ms Wood will offer themselves for election at the Annual General Meeting on 11 September 2017.

During the year, Mr Robson resigned as Company Secretary. On his resignation, Mr Caldwell was appointed as Company Secretary and resigned 31 March 2017. Ms Jones was appointed as Company Secretary on 1 April 2017.

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 Mr Bernstein (resigned 24 June 2016) and Mr Smerdon with other companies within the Capstone group are not disclosed within this report.

The interests in shares and other contracts of Messrs Garcia and Anglada (both resigned 15 December 2016) and 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.

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

ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The details of ultimate parent company and controlling party, and the smallest and largest group in which this company is consolidated, are provided in note 27 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 (2015/16: £0.1m).

FINANCIAL INSTRUMENTS

The details of the financial instruments are provided in note 19 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 26 and 27.

ENVIRONMENTAL MATTERS

Information on environmental matters and KPIs are contained within the 'Environmentally sustainable' part of the Strategic Report on pages 23 to 25.

OUTLOOK

Commentary on the main drivers of future profitability is contained in the Strategic Report on page 39.

THE STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT

As required by the UK Corporate Governance Code and the Bristol Water Code, see page 51, the directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

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

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

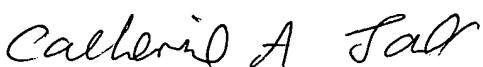
Each of the directors, whose names and functions are listed on pages 46 and 47 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in conformity with Financial Reporting Standard 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 52 to 65. 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:



Catherine Jones
Company Secretary
13 July 2017

CORPORATE GOVERNANCE REPORT

Introduction

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

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

We have fused together these Ofwat principles and the UK Corporate Governance Code into our code of corporate governance ("the Code"), available on our website. Our viability statement can be found on page 38 to 39.

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

Board and Board committees

The Chairman

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

Non-executive Directors

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

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

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

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

CORPORATE GOVERNANCE REPORT (continued)

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

At 25 May 2017 the Board of Bristol Water plc (the "Board") comprised the Chairman (a non-executive director), two executive directors and seven other non-executive directors. Four of the non-executive directors are, in the opinion of the Board, independent. None of the non-executive directors have served for more than nine years on the Board.

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

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

The recruitment process carried out during the year for Mel Karam, Chief Executive Officer and Tracey Wood, Non-Executive Director, was conducted by an external independent firm, Odgers Berndston, in conjunction with a team appointed by the Nomination Committee consisting of the chairman and Mr Axtell. Mr Karam was appointed with the effect from 1 April 2017 and Ms Wood was appointed with effect from 1 January 2017. Details of Mr Karam's and Ms Wood's background and experience are mentioned on pages 46 and 47.

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

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

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

CORPORATE GOVERNANCE REPORT (continued)

Review of the Board performance

The Board performs an annual review of its performance and considers this to be sensible part of good corporate governance. Following an external independent evaluation of the Board and its committees' performance in 2013/14, the Board has conducted an internal evaluation of its performance including that of its committees and individual directors. Each director was asked to answer a suite of questions on performance devised for the Company which included areas of corporate governance. The results were considered at the 7 July 2016 board meeting.

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

The non-executives met without the executive directors present on 26 May 2016, 7 July 2016, 22 September 2016, 30 November 2016, 2 February and 23 March 2017

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

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

	Number of meetings		Percentage attendance during appointment period	ARAC meetings (maximum 5)	Remuneration Committee meetings (maximum 4)	Nomination Committee meetings (maximum 1)
	Board meetings attended (maximum 9)	Maximum possible during appointment period				
K Ludeman, Chairman	9	9	100%			1
L Garcia, Chief Executive Officer (resigned 15 December 2016)	5	5	100%			1
M Karam (appointed 1 April 2017)	0	0	0%			0
M Axtell, Chief Financial Officer	9	9	100%			
P McIlwraith, Non-Executive (retired 31 May 2016)	0	1	0%	1	1	0
C Curling, Non-Executive (retired 28 February 2017)	7	8	88%	4	3	1
R Davis, Non-Executive	9	9	100%	4	4	1
T Tutton, Non-Executive	9	9	100%	5	4	1
T Hemus, Non-Executive (appointed 1 April 2016)	8	9	89%	5	4	1
T Wood, Non-Executive (appointed 1 January 2017)	2	2	100%	1	2	0
M Bernstein, Non-Executive (resigned 24 June 2016)	1	1	100%		1	0
M Smerdon, Non-Executive	9	9	100%	1		1
H Ichishi, Non-Executive	8	9	89%	1	4	1
M Anglada, Non-Executive (resigned 15 December 2016)	5	5	100%			1
P Malan, Non-Executive (appointed 7 July 2016)	8	8	100%		3	0

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

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

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

CORPORATE GOVERNANCE REPORT (continued)

Audit and Risk Assurance Committee ("ARAC")

The ARAC's terms of reference include the points recommended by our 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 currently chaired by Mr Hemus, independent non-executive director, and currently comprises three other independent non-executive directors Messrs Davis and Tutton and Ms Wood and two non-executive directors Messrs Smerdon and Ichishi (appointed 15 December 2016). Mr McIlwraith retired from the Committee on 31 May 2016 and Mr Curling retired on 28 February 2017. Mr Hemus is the only qualified accountant in the Committee. The external auditors attended all meetings during the year and the internal auditors report to this Committee on a regular basis.

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

Areas of management judgements considered by the Committee

The Committee reviewed the financial statements along with the areas of significant management judgement and other significant financial matters. In forming their view on the appropriateness of accounting treatment and disclosures in relation to 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 surplus 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 IAS19, involve significant judgements around the assumptions including: • longevity estimation for scheme members, • rate of return on the scheme assets, • calculation of the present value of pension liability, • tax deduction, and • other demographic factors. Accordingly, accounting for pensions is regarded as a key judgemental area.	Specific factors considered by the Committee: • The calculations for determining the pension position were performed by an independent and qualified actuary in accordance with the principles of the accounting standard (IAS19). • An assessment of the degree of prudence within these assumptions. • The last funding valuation was performed as of 31 March 2014 which required a more detailed review of the key actuarial assumptions by the actuary. • Tax was deducted at 35% on the basis that this is the rate which would be applied to the surplus if it were recovered by the Company.

CORPORATE GOVERNANCE REPORT (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 judgement applied for the bad debt provision. • The method of calculation is considered to be sufficiently prudent. All debt that is over four years old is fully provided for, and the provision for the amounts less than four years old, follows a systematic approach based on the historic collection rates, adjusted for any known economic factors. The judgement applied by the management is considered appropriate and functions as a bridge between the provision calculation based on historic collection rates, and the recent collection trends and economic factors. • The underlying collection and debtor balances information, used for the calculation of the provision, is provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to collate this information.
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 Income Statement. Given the size and complex nature of the capital programme, the accounting for infrastructure projects involves significant management judgement.	Specific factors considered by the Committee: • The nature of capital projects is reviewed by Capital Project Managers and Finance 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.
Capitalisation of employment costs Payroll costs are allocated to cost centres that reflect the nature of activity being undertaken. A judgement is applied, based on the activity for each cost centre, of an appropriate proportion to capitalise.	Specific factors considered by the Committee: • An assessment is made to ensure the required criteria for capitalisation is met (directly attributable to an asset, probable future economic benefit and can be measured reliably). • There is a formal procedure under which proportions are reviewed.

CORPORATE GOVERNANCE REPORT (continued)

Other significant financial matters considered by the Committee

Financial matter	How the Committee addressed these matters
Revenue recognition Based on the number of properties, approximately 50% of our customers have a water meter installed at their properties. Meters for the majority of the customers are read on a six monthly basis. Therefore at the end of the year, an estimation of water consumed by the customers, over the period between their last meter reading date and the year-end date, is made and an income accrual recognised accordingly.	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 provided by our joint venture company (BWBSL), which uses a robust system and audited procedures to calculate the accrual. • The accrued income amounts and supporting reports are reviewed for reasonableness by the Company's management.

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

Going Concern

Management continues to prepare accounts on a going concern basis. More details are set out on page 65 and in the Viability Statement included in the Strategic Report on pages 38 to 39.

External auditors

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT (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 6d of the financial statements.

Internal auditors

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

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

Remuneration Committee

The role and composition of the Remuneration Committee is set out in the Remuneration Committee Report on page 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, Davis, Tutton, Hemus, Malan (appointed 8 July 2016), Ichishi (appointed 15 December 2016) and Ms Wood (appointed 1 January 2017).

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

In accordance with our 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 a single female representation at the Board level. In our workforce of 461 at 31 March 2017 around 31% (2016 – 28%) were women. Whilst in senior/middle management executive positions the female representation was around 27% (2016 – 29%). The Nomination Committee has reviewed and monitored compliance with the Board Diversity Policy and is of the view that the Board Diversity Policy is complied with.

CORPORATE GOVERNANCE REPORT (continued)

Modern Slavery Act

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

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

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

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

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

Commitment

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

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

Induction and training of directors

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

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

CORPORATE GOVERNANCE REPORT (continued)

Retirement and re-election of directors

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

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

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

On 15 December 2016, Capstone Infrastructure announced that it had completed a transaction with its ultimate parent entity, iCON III to sell its 50% indirect interest in Bristol Water. Accordingly Bristol Water's ultimate holding entity is now iCON III.

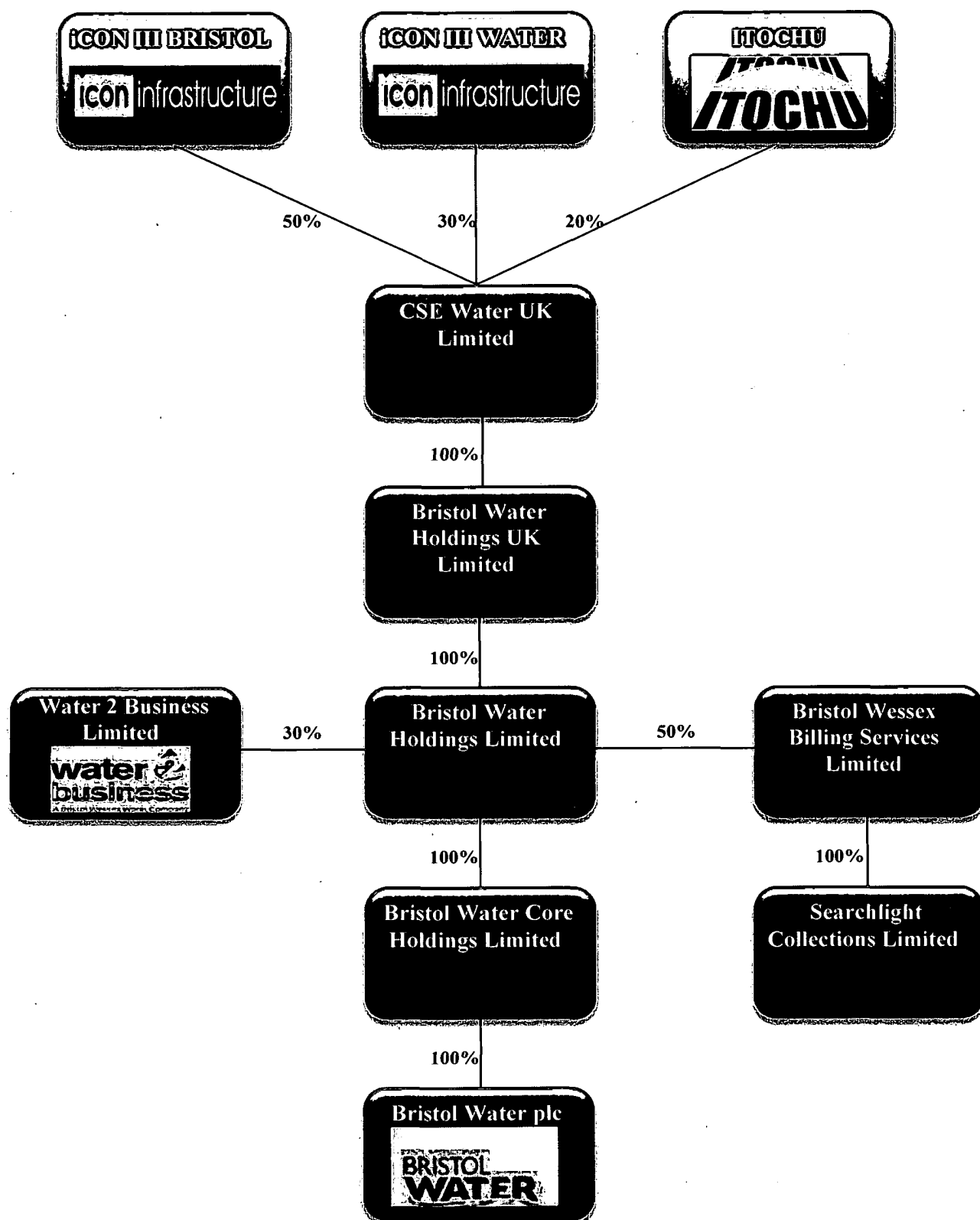
iCON has, in its capacity as managing general partner of iCON III, been made aware of Ofwat's "Board leadership, Transparency and Governance - Holding Company Principles" published in April 2014 which set out Ofwat's expectations for holding companies of regulated water companies to show their adherence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

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

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

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

CORPORATE GOVERNANCE REPORT (continued)



CORPORATE GOVERNANCE REPORT (continued)

COMPANY	COMPANY DETAILS	DIRECTORS
iCON Infrastructure Partners III, LP	English Limited Partnership domiciled in Guernsey	No Designated Members Managing General Partner – iCON Infrastructure Management III Limited
iCON III Bristol Limited	Incorporated in Guernsey Tax resident in the United Kingdom	Paul Malan (appointed 13 December 2016) Richard Stevens (appointed 13 December 2016)
Bristol Water Holdings UK Limited (Wholly owned by CSE Water)	Incorporated in England & Wales Holding Company	Hajime Ichishi Michael Smerdon Michael Bernstein (resigned 28 June 2016) Waleed Elgohary (resigned 13 May 2016) Miquel Anglada (resigned 15 December 2016) Paul Malan (appointed 13 May 2016) Enis Moran (appointed 28 June 2016 and resigned 31 March 2017) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017)
Bristol Water Holdings Limited (Wholly owned by Bristol Water Holdings UK Limited)	Incorporated in England & Wales Holding Company	Hajime Ichishi Michael Smerdon Michael Bernstein (resigned 28 June 2016) Waleed Elgohary (resigned 13 May 2016) Miquel Anglada (resigned 15 December 2016) Paul Malan (appointed 13 May 2016) Enis Moran (appointed 28 June 2016 and resigned 31 March 2017) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017)
Bristol Water Core Holdings Limited (Wholly owned by Bristol Water Holdings Limited)	Incorporated in England & Wales Holding Company	Hajime Ichishi Michael Smerdon Michael Bernstein (resigned 28 June 2016) Waleed Elgohary (resigned 13 May 2016) Miquel Anglada (resigned 15 December 2016) Paul Malan (appointed 13 May 2016) Enis Moran (appointed 28 June 2016 and resigned 31 March 2017) Scott Springett (appointed 1 April 2017 and resigned 12 June 2017)

CORPORATE GOVERNANCE REPORT (continued)

COMPANY	COMPANY DETAILS	COMPANY OFFICERS
Bristol Water plc (Wholly owned by Bristol Water Core Holdings Limited)	Incorporated in England & Wales Holds Water Undertaker Licence under Water Industry Act 1991	Details of directors are on pages 46 to 47
Bristol Wessex Billing Services Limited (Bristol Water Holdings Limited owns 50%)	Incorporated in England & Wales Joint Venture Billing Company	Colin Skellet Andrew Pymmer Luis Garcia (resigned 15 December 2016) Mick Axtell (appointed 24 January 2017) Ben Newby
Searchlight Collections Limited (Wholly owned by BWBSL)	Incorporated in England & Wales Debt Collection company	Alex Chapman Lynne Stephens
Water 2 Business Limited (Bristol Water Holdings Limited owns 30%)	Incorporated in England & Wales Non Household Retailer Holds Water Supply Licence	David Elliott (resigned 1 April 2017) Mohammed Siddiq (appointed 29 April 2016 and resigned 1 April 2017) Christopher Chambers (appointed 29 April 2016) Luis Garcia (resigned 15 December 2016) Ben Newby (resigned 31 January 2017) Sarah Johnson (appointed 31 December 2016) Enis Moran (appointed 31 January 2017 and resigned 1 April 2017) Alan Morgan (appointed 1 April 2017)

CORPORATE GOVERNANCE REPORT (continued)

Internal control

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

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

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

The Executive Directors:

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

The Company operates through a formal board structure, which:

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

The ARAC:

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

The Board:

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

The Board undertook formal assessments of risk management and control arrangements including the risk register on 6 July 2017 and concluded that the overall internal control framework was working effectively. The review included an assessment of the effectiveness of internal controls within the group's joint venture, BWBSL.

CORPORATE GOVERNANCE REPORT (continued)

Directors' responsibilities in respect of the Annual Report

The statement of the directors in respect of the Annual Report, and the statement of directors' responsibilities are contained within the Directors' Report on pages 50 and 51.

Going concern

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

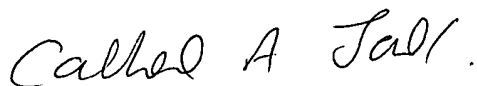
The key risks to the Company are regulatory requirements and developments, operational events and performance problems. The Company is well placed to respond to the near future events, with cash of £16m available and committed borrowing facilities of £70m as at 31 March 2017. On 3 July 2017 the company entered into new credit facilities of £25 million with an expiry date of 7 December 2021.

The Company is not immune to the continuing financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver the current and future capital programmes. The Directors have considered the viability of the Company in accordance with the requirements for a viability statement which can be found on pages 38 to 39.

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

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

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



Catherine Jones
Company Secretary
13 July 2017

REMUNERATION COMMITTEE REPORT

Introduction

I became Chair of the Remuneration Committee ("the Committee") with effect from 1 March 2017, having been a member since joining the Company's Board in January 2017.

I am pleased to present, on behalf of the Board, our Committee report in respect of the year ended 31 March 2017 together with our approach for 2017/2018.

This Committee report has been prepared under the principles of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 issued by the Department for Business, Innovation and Skills ("BIS") governing the content of remuneration reports and the provision of the Companies Act 2006.

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

Key matters

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

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

- **Salary** - A review of the impact of inflation on salaries was conducted in 2016/17 resulting in a 1.5% increase in base salary as of April 2017 for all employees, including the Chief Financial Officer ("CFO"). This was agreed with representatives of the recognised Trade Unions. This increase compares to 0.6% awarded in the previous year. The new Chief Executive Officer joined the business on 1 April 2017 and was therefore not eligible for this increase.
- **Annual bonus** - The Committee gave consideration to the objectives and targets of the Company's annual bonus scheme for 2016/17, in which all employees participated during the year. This included the introduction of a 5% of salary bonus scheme in place of the capped company wide scheme for those in junior graded roles, and the introduction of a 10% of salary scheme for those at team leader and junior management level. This means that all staff are now on performance related bonus schemes which are set by reference to a percentage of base salary. The weighting of the Personal and Business elements of the schemes was also amended to place more emphasis on Business performance for those in the higher bonus schemes.

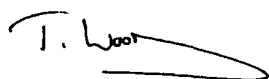
The following sets out the annual bonus payments for executive directors awarded in respect of 2016/17. A summary of the annual bonus performance measures and the extent to which performance was achieved is set out on page 72.

Directors	Proportion of maximum bonus achieved	Bonus Payment
Luis Garcia - Former CEO	81%	£35k
Mick Axtell – CFO from 1 April 2016 to 15 December 2016 and Interim CEO from 16 December 2016 to 31 March 2017	84%	£37k

REMUNERATION COMMITTEE REPORT (continued)

- **Pension** - The Company continues to operate a company stakeholder (defined contribution) scheme and previous members of the Water Companies Pension Scheme ("WCPS") have automatically been enrolled in the stakeholder scheme. All employees are now enrolled on this scheme with matching employer contributions (to a maximum employer contribution of 6%), unless they have "opted out". A deed was signed on the 31st March 2016 between Bristol Water plc and The Water Companies (Pension Fund) Trustee Company to close both Company final salary schemes to future accrual.
- **Long Term Incentive Plan ("LTIP")** - Plans for a new LTIP were postponed at the beginning of AMP6. An LTIP has now been agreed for the CEO and CFO only. The LTIP covers the AMP6 period from 1 April 2015 to 31 March 2020 and was granted on 15 May 2017. Participants can earn up to 34.2% of salary for each year of the plan based on the Company's performance against long-term strategic goals of the Company, including customer outcomes. Further details are provided on page 78.
- **Departing directors** - Mike King left the Company on 31 December 2015. Luis Garcia left the Company on 15 December 2016. Payments made to Mike King and Luis Garcia are shown on page 72 of this document.
- **Mick Axtell additional responsibilities** - Following Luis Garcia's departure Mick Axtell was appointed interim CEO, in addition to CFO duties, to the end of March 2017. This coincided with a job evaluation of his CFO role using the new Towers Watson methodology. Based on this review the Committee considered it was appropriate to permanently increase his salary by 7.41% to £145,000, rather than pay a higher amount for a shorter period. The increase was effective from the 1st December 2016.
- **New CEO** - Mel Karam commenced his appointment as CEO on 1 April 2017. In order to secure the highest possible candidate, bringing the right level of experience to the organisation, the remuneration package offered reflected the level of skill and expertise required.

Annual Salary	£230,000
Holiday Entitlement	25 Days + Bank Holidays
Bonus	Maximum of 60% of Basic Salary
LTIP	Performance period 1 April 2015 to 31 March 2020 (AMP6) Years for benefit accrual (1st April 2017 to 31 March 2020) Payments based on the Company's performance against long-term strategic goals of the Company, including customer outcomes The maximum payment is 34.2% of salary for each year of the performance period in employment with an expected minimum of £55,000 per annum 50% will be paid following the end of AMP6 with the remaining 50% paid one year later
Company Car	Perk Car (Any available on current Fleet list)
Life Assurance	4x Annual Salary



Tracey Wood
Remuneration Committee Chairman
13 July 2017

REMUNERATION COMMITTEE REPORT (continued)

Role and composition of the Remuneration Committee

The Committee makes recommendations to the Board on the overall remuneration strategy, and on the remuneration of the executive directors and senior executives of the Company, in consultation with the Chairman and/or CEO as appropriate.

The membership of the Committee during the year comprised:

Mr Curling (Chair until retirement 28 February 2017), Ms Wood (appointed 1 January 2017 and Chair from 1 March 2017), Mr Davis, Mr Tutton, Mr McIlwraith (retired 31 May 2016), Mr Bernstein (resigned 24 June 2016), Mr Hemus (appointed 1 April 2016), Mr Malan (appointed 7 July 2016) and Mr Ichishi (appointed 15 December 2016).

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

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

During the year the CEO, head of Human Resources and Company Secretary provided material advice and services to the Committee. Guidance was also obtained from Towers Watson to support decisions on the Company's grading structure and remuneration strategy and from Deloitte, in respect of the new LTIP. The total fees paid to Towers Watson in the year for services to the Committee were £2,650 (2016 - £nil). The total fees payable to Deloitte for services carried out to the Committee are £6,965 (2016 - £nil). Deloitte also provided advice during the year to the Company on other technical matters.

The Committee is satisfied that the advice received from Towers Watson and Deloitte is independent. No director played a part in any decisions about his or her own remuneration. No Committee member has any personal financial interest or conflict of interest arising from cross-directorships or from day-to-day involvement in running the business.

Executive Directors' remuneration policy

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

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

REMUNERATION COMMITTEE REPORT (continued)

Summary of directors remuneration policy

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

Remuneration element	Purpose and link to strategy	Policy and approach	Maximum opportunity	Change in policy since 2015/16 and changes implemented for 2017/18.
Salary	To attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Factors taken into account when determining basic annual salary levels are market data provided by a selected market leading provider, objective research, the individual executive director's performance during the year and pay and conditions throughout the Company. Salaries are reviewed at the discretion of the Committee.	Base salary increases are applied in line with the outcome of any Company wide annual pay award following a review conducted by the Committee in consultation with trade unions. Increases will normally be in-line with the increases awarded to the rest of the Company workforce.	During 2016/17, the company introduced a consistent and robust role grading methodology which is aligned to salary and total remuneration benchmarking survey data from a market leading provider. This is in line with the Company wide policy. No proposed changes for 2017/18. Salaries will next be reviewed with effect from 1 April 2018.
Annual bonus	To drive and reward performance against personal objectives and selected financial and operational KPIs which are linked directly with business strategy and customer outcomes Ofwat's measures of success.	2017/18 Annual bonus is based: - 90% on the following business objectives: customer service, financial, Periodic Review 2019, and operational and health and safety targets; and - 10% on the achievement of role specific strategic objectives The same business objective targets are applied to all staff who receives bonuses. The customer service and operational targets are set around measurable outcomes which the Company believes are important to customers such as water quality, leakage target compliance, minimising interruptions to supply and the Ofwat customer service measure, the SIM. Bonus scheme targets are set annually.	Maximum of: 60% of base salary for the CEO 30% of base salary for the CFO save in exceptional circumstances.	A new bonus structure was implemented for 2016/17 putting a higher weighting of the bonus on Business Performance at 70%. For 2017/18 the number of measures attached to the bonus plan will be reduced to reinforce the messages around the key underlying measures which underpin the delivery of the Company's strategy. The Committee has also removed the link between the personal element of the bonus and the performance rating and instead introduced a role specific objective for each Executive.
LTIP	Incentivise long-term delivery of safe, excellent quality water, outstanding customer service and achievement of financial objectives. Align executive directors' long-term interests with those of customers, long-term shareholders and other stakeholders.	The LTIP is based on performance over the AMP6 period from 1 April 2015 to 31 March 2020. LTIP awards are based on the Company's performance against long term strategic goals of the Company including customer outcomes. 50% will be paid following the end of AMP6 with the remaining 50% paid one year later. There is no share option scheme in operation.	The maximum payment is 34.2% of salary for each year of the performance period the director is in employment with an expected minimum payment of £55,000p.a. for Mel Karam	An LTIP scheme has been agreed for the CEO and CFO only for AMP6. It was agreed in principle in March 2017, and awarded in May 2017. The LTIP will continue to operate during 2017/18.
Pension	Attract and retain high performing individuals reflecting market value of role and director's skills, experience and performance.	Pension contributions are made to the Company stakeholder schemes at a specified percentage of basic salary.	Maximum Employer contribution of 6% of base salary.	Defined Benefit (Final Salary) scheme no longer exists and all staff including Directors are now on the Defined Contribution (Stakeholder) scheme since 1 st April 2016. No change proposed during 2017/18.
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.	N/A	None and none proposed during 2017/18.

REMUNERATION COMMITTEE REPORT (continued)

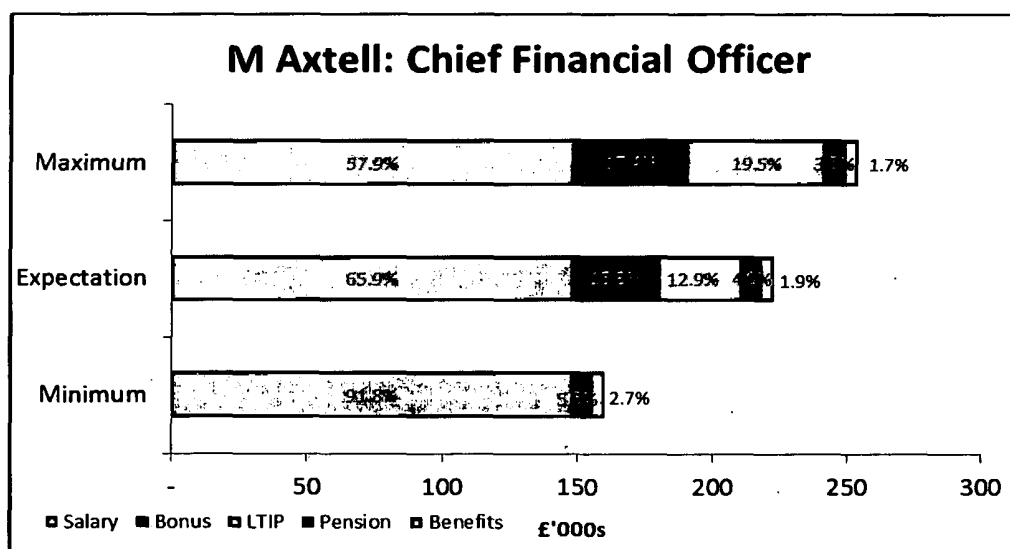
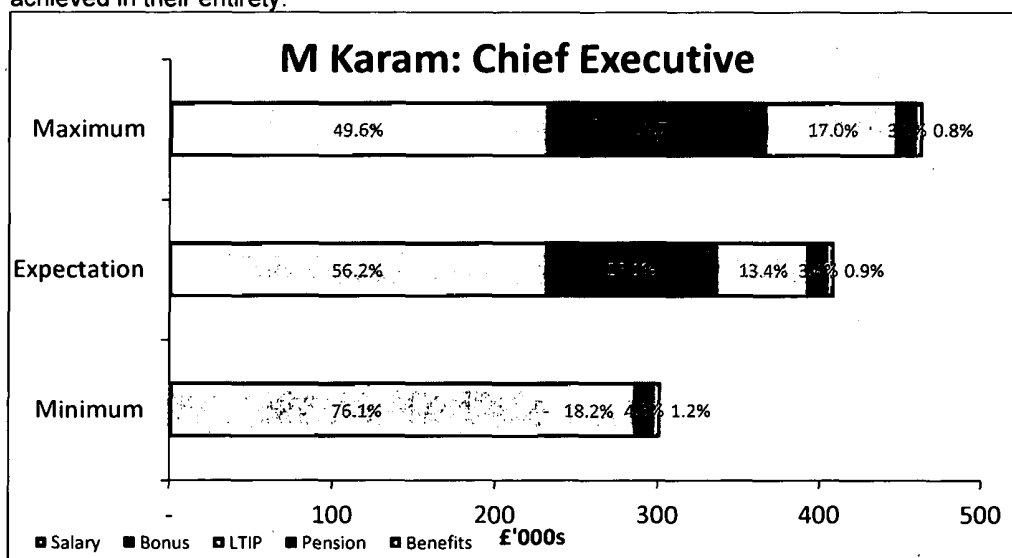
Remuneration in different performance scenarios

In line with the BIS disclosure requirements in respect of directors' remuneration, the minimum, expected and maximum total remuneration of the executive directors based upon the proposed policy for 2017/18 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. This shows the maximum amounts that could be earned during the year, and it is dependent on the required conditions being met. 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.

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 linked to employee contribution up to a maximum employer contribution of 6%).

The maximum award represents the maximum total package which may be earned on an annual basis by each director assuming that all the Company and individual performance targets relating to bonus are achieved in their entirety.



REMUNERATION COMMITTEE REPORT (continued)

Remuneration policy for the appointment of new Executive Directors

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

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

Service contracts

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

	Contract date	Notice period	Unexpired term
M Karam	15 May 2017	6 months	rolling 6 months
M Axtell	11 November 2015	1 year	rolling 1 year

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

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

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

Remuneration policy for non-executive directors

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

Non-executive directors do not have contracts of employment, do not participate in the Company designated pension schemes or bonus schemes and do not receive any benefits in kind. Non executives are paid reasonable expenses. 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. Fees for any newly appointed non-executive director would be in-line with the above policy.

Shareholder and employee input in setting remuneration policy

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

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

REMUNERATION COMMITTEE REPORT (continued)

Application of remuneration policy in 2016/17

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

Single total figure for remuneration of executive directors for 2016/17 (audited)

	L Garcia ¹		M Axtell		M King ²	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Salary/fees	173 ³	194	138 ⁴	128	-	87
Annual Bonus	35	40	37	38	-	3
Benefits	8	11	4	4	-	2
Pension	10	12	8	8	-	5
Single Figure pre-LTIP	226	257	187	178	-	97
Change since 2015/16	-12.1%	-	6.2%	-	-	-
LTIP ⁵ – AMP5	47	-	2	-	55	-
Single Figure	273	257	189	178	55	97

¹ Resigned as the CEO on 15 December 2016, accordingly, the remuneration in the above table reflects nine months' of Mr Garcia's service.

² Resigned as the Regulation Director on 31 December 2015 and, accordingly, the remuneration in the above table reflects only Mr King's nine months' service. In addition to the remuneration in the table, consideration of £118k was made for compensation for loss of office, as agreed by both parties. Payment was split over two years with £59k being paid in 2016/17 (2015/16 £79k).

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

⁴ Following the resignation of Mr Garcia, Mr Axtell was appointed as Interim CEO.

Mr Axtell's salary during the year was:

1st April 2016 - £135,000 (having been set at that level in November 2015)

1st December 2016 - £145,000 - based on re-evaluation of CFO role and consideration of appointment as Interim CEO

⁵ The LTIP for 2014/15 represents the benefit earned from performance measures which were met during 2014/15. In 2014/15, an estimate by management of the value of the awards was accrued in the Financial Statements and the amount shown above reflects difference in the actual award paid above the estimate.

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

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

Bonus includes amounts earned based on performance during 2016/17, which have been accrued and approved, but not paid as at 31 March 2017 and relates to the period served as a director.

Salary (audited)

A salary review conducted by the Committee during 2016/17 resulted in a 0.6% increase in base salary effective from April 2016 for all employees, including the then CEO (L Garcia) but not the CFO as his salary had recently been increased in line with his new role (2015/16: all staff: 0%; CEO: 0% base salary increase).

REMUNERATION COMMITTEE REPORT (continued)

Annual bonus for 2016/17 (audited)

The maximum opportunity for the CEO and the CFO for the year ended 31 March 2017 remained unchanged from 2016 at 30% of base salary.

The performance measures established by the Committee for the 2016/2017 bonus continue to align reward with strategy whilst not encouraging inappropriate business risks to be taken.

The achievement of the performance measures has been reviewed, with appropriate input from the Audit Committee, following the end of the 2016/2017 financial year. The maximum 2016/2017 bonus opportunity against each of the main performance measures is shown below together with the award actually received.

During the year under review, a process was introduced involving setting personal objectives for all employees. Performance against these objectives would determine a rating which, along with business performance and bonus scheme entitlement, would then dictate the amount of bonus awarded.

The table below represents the business performance measures which forms 70% of the basis of the bonus:

Component	Description	Target	Weighting	Achieved in year	Performance achieved
EBITDA	Financial measure indicating profitability of the Company during the year	Meet performance target set in budget as agreed with the Board	25%	69.0%	17.3%
Channel Efficiency	Measure of savings achieved in the year compared with Business Plan	Meet target set in budget as agreed with the Board	20%	100%	20.0%
Unplanned Customer minutes Lost	Measure of reliability of supply recording how long on average, customers were without water	Meet targets set by the Board using Ofwat measures	8%	80%	6.4%
Leakage	Measure of efficient use of resources by the company in achieving environmental sustainability	Meet targets set by Ofwat i.e. 47MI/d.	12%	90.4%	10.8%
Mean Zonal Compliance	Measure of water quality supplied to customers, determined by scientific testing and benchmarked against industry levels.	Meet compliance targets set by the board	5%	100%	5.0%
Negative Water Quality Contacts	Measure of water quality relating to taste, odour and appearance of water	Meet target set by the Board	5%	83.8%	4.2%
SIM	Measure of customer satisfaction implemented by Ofwat	Meet targets set by the Board using Ofwat measures	10%	100%	10.0%
Customer Satisfaction Survey	Measure of customer satisfaction	Meet target set by the Board	5%	26.7%	1.3%
Health & Safety - Employees	Measures of number of lost time injuries, severity rating and leading indicator on hazard prevention	Meet target set by the Board	7.5%	0%	0.0%
Health & Safety - Contractors	Measures of number of lost time injuries, severity rating and leading indicator on hazard prevention	Meet target set by the Board	2.5%	100%	2.5%
					77.5% out of 100%

REMUNERATION COMMITTEE REPORT (continued)

In addition to these performance measures, the remaining 30% of Executives bonus is based on personal performance which is assessed in accordance with the personal performance ratings given by each of their line managers. Luis Garcia was assessed as a 'High Performer' and Mick Axtell as an 'Exceptional Performer' carrying scores of 90% and 100% respectively.

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

L Garcia	81% of maximum bonus entitlement, i.e. 24.0% of year end base salary
M Axtell	84% of maximum bonus entitlement, i.e. 25.5% of year end base salary

The payment made to Luis Garcia was pro-rated in line with his service in 2016/17 (nine months). Mick Axtell's bonus was based on his salary at the end of the year.

The average bonus payment per employee for 2016/17 was £800 (2015/16: £900). This is the average bonus for those at the lowest grade group.

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

Benefits (audited)

For executive directors benefits include the provision of a company car or equivalent cash allowance, and private medical insurance. Depending on the individual employee role, the benefits may include provision of company car and fuel, car and fuel allowances, health care or child care vouchers.

Pension arrangements (audited)

At 31 March 2017, no director was accruing benefits under the Company's defined benefit pension scheme.

Mr Garcia became a member of the Company designated stakeholder pension scheme in October 2013 under the Government's pension auto-enrolment legislation. Since that time, and until his departure in December 2016, the Company made contributions equivalent to 6% of annual base salary to the scheme on Mr Garcia's behalf. Contributions paid to the scheme for the financial year totalled £9,690 (2015/16: £11,556).

At 31 March 2017, Mr Axtell was a member of the Company designated stakeholder pension scheme and the contribution paid to the scheme during the financial year was £8,300, an amount equivalent to 6% of annual base salary (2015/16: £7,651).

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 2017 none of the directors had any interest in the ordinary or preference shares of the Company.

REMUNERATION COMMITTEE REPORT (continued)

Single total figure for remuneration of non-executive directors for 2016/17 (audited)

	Salary/fees	
	2016/17	2015/16
	£'000	£'000
K Ludeman	100	100
P McIlwraith	7	43
C Curling	37	40
R Davis	36	35
T Tutton	38	35
A Hemus	42	-
T Wood	10	-
H Ichishi ¹	-	-
M Smerdon ¹	-	-
P Malan ¹	-	-
Single Figure	270	253

¹No remuneration has been paid by the Company.

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

There are no changes to non-executive directors fees and they will be reviewed in September 2017.

The remuneration policy for the financial year was approved by the Committee on 6 July 2017.

Historic Chief Executive Officer Remuneration

The following table shows the total remuneration payable by the Company to Luis Garcia, the Chief Executive Officer, in respect of service for the five year period from 1 April 2012 to 15 December 2016 and the remuneration payable to Mick Axtell as interim Chief Executive Officer for the period to 31 March 2017.

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

¹ The remuneration for the current year reflects that Mr Garcia resigned as CEO on 15 December 2016. It includes £27k for payments he was entitled to on leaving under his contract. His bonus was based on the salary excluding these amounts i.e. his salary pro-rated to the proportion of the year he was in post (£145k).

² The above table apportions Mick Axtell's remuneration to reflect the period that he was interim CEO from 16 December 2016 to 31 March 2017.

REMUNERATION COMMITTEE REPORT (continued)

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

Percentage Change in Remuneration for the CEO Compared to all Employees

- **Salary** – The salary paid to the individual undertaking the role of CEO for 2016/17 (excluding £27k payments entitled to on leaving) declined by 3.1% compared to 2015/16. The aggregate salary for other employees for 2016/17 declined 1.9% compared to 2015/16.
- **Annual bonus** - The proportion of base salary awarded to the CEO as annual bonus for 2016/17 increased by 3.35% compared with the prior year (2015/16: decrease of 5.67%). The proportion of base salary awarded to all other staff as annual bonus for the same period fell by 0.04% compared with the prior year (2015/16: decrease of 0.05%).
- **Benefits** - Benefits, including benefits in kind, payable to the CEO decreased by 27.27% for 2016/17 compared with the prior year (2015/16: increase 6.89%). Benefits payable to all other eligible staff have remained constant compared with the prior year (2015/16: constant).

Relative importance of spend on pay

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

	Year ended 31 March 2017		Year ended 31 March 2016
	£m	Change compared to prior year %	£m
EBITDA	50.8	-8.1	55.3
PBT	20.9	-24.8	27.8
Payments to shareholders:			
Base level dividends	6.0	100	-
Inter-company loan interest related dividends	3.2	0	3.2
Payments to employees:			
Wages and salaries excluding directors	15.4	-1.9	15.7
Wages and salaries including directors	16.3	-1.8	16.6

The base level dividends comprise £5.0m due to a redistribution of working capital in advance of the sale of the non-household retail book to Water2Business and £1.0m as a distribution to shareholders.

REMUNERATION COMMITTEE REPORT (continued)

How the remuneration policy will be applied in 2017/18

The same remuneration policy as outlined above will be applied during 2017/18.

Salary

As outlined above, a review of the impact of inflation on salaries was conducted in 2016/17 resulting in a 1.5% increase in base salary as of April 2017 for all employees, including the CFO. The inflationary increase was not relevant to the CEO as he started on 1 April 2017. The salaries for 2017/18 for executive directors are therefore as follows:

Executive Director	Salary 2017/18
CEO Mel Karam	£230,000
CFO Mick Axtell	£147,175

Annual bonus

The annual bonus scheme will continue to operate for all employees. Some detail of the process and methodology have been changed as outlined below.

The maximum bonus for 2017/18 for the CEO is 60% reflecting the leadership required and criticality of the role. The maximum bonus opportunity for 2017/18 for the Chief Financial Officer is 30%.

The Committee has, however, decided to simplify the structure of the annual bonus plan and reduce the number of measures in order to reinforce the messages around the key underlying measures which underpin the delivery of the Company's strategy. The Committee has also removed the link between the personal element of the bonus and the performance rating and instead introduced a role specific objective for each Executive.

The performance weightings have been agreed as follows:

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

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

REMUNERATION COMMITTEE REPORT (continued)

2017 LTIP Grant (audited)

As set out above a new LTIP was approved at a Board meeting in March 2017 and grant was made to the two Executive on 15 May 2017. The performance period is 1 April 2015 to 31 March 2020. The period which the AMP6 LTIP relates to spans 1 April 2015 until 31 March 2020 for Mick Axtell and from 1 April 2017 until 31 March 2020 for Mel Karam. An estimate of the cost accrued to the end of March has been included in the 2016/17 accounts. The LTIP is based on achievement against the following performance conditions:

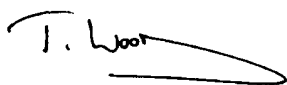
Performance Measure	Weighting
Totex Performance Measure	20%
Dividend Performance Measure	10%
Outcome Delivery Incentive ("ODI") Performance Measure	10%
Service Incentive Mechanism ("SIM") Performance Measure	10%
Company Monitoring Framework Performance Measure	10%
PR 19 Final Determination / Delivery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

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

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

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

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



Tracey Wood
Chair of Remuneration Committee
13 July 2017

INVESTORS' REPORT

The Board of Bristol Water plc seeks to uphold the highest standards of transparency and openness in performing its functions and dealing with all of our stakeholders. A key aspect of this relates to the ownership of Bristol Water plc. Accordingly, the Board has requested information from the ultimate shareholders in the Company in relation to, inter alia, the ownership and corporate structure of the group as well as matters related to financing and dividend policy of the group.

The description below has been prepared based on the disclosures provided by Bristol Water plc's ultimate shareholders.

Ownership and corporate structure

At 31 March 2017, 80% of Bristol Water plc was ultimately owned by two investment funds (the "iCON Funds") which are affiliated with iCON Infrastructure LLP ("iCON"), iCON Infrastructure Partners III, L.P. ("iCON III") as to 50% and iCON Infrastructure Partners III (Bristol), L.P. ("iCON Bristol") as to 30%, along with 20% which was ultimately owned by Itochu Corporation ("Itochu").

The iCON Funds acquired their indirect interests in Bristol Water plc during the financial year ended 31 March 2017, and details of the transactions whereby this occurred are outlined in more detail below. The iCON Funds are English limited partnerships which are domiciled in Guernsey. The iCON Funds employ typical partnership structures used for institutional investment, pursuant to which partners themselves (rather than the partnership) are taxable on their share of any profits or gains of the partnership as and when these arise. The ultimate investors in the iCON Funds are pension funds, asset managers and insurance companies from countries around the world including UK, Germany, France, Canada, the United States and Japan. Further information concerning iCON, which is an experienced investor in the UK water sector, can be obtained at www.iconinfrastructure.com.

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

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

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

The following ownership changes relating to Bristol Water plc occurred during the year ended 31 March 2017:

- iCON III, an €813 million infrastructure fund (and one of the iCON Funds), acquired 100% of Capstone Infrastructure Corporation ("Capstone") on 29 April 2016. Capstone was a Toronto stock exchange listed infrastructure company that, at the time of iCON III's takeover, owned a 50% shareholding in Bristol Water plc (via CSE Water UK Limited) alongside 100% of Capstone Power Corp., a diversified Canadian power generation company, and 33.3% of Varmevarde AB, a Swedish district heating business;

INVESTORS' REPORT (continued)

- On 15 December 2016, CSE Water UK Limited acquired Sociedad general de aguas de Barcelona S.A ("Agbar"), a member of the Suez Environnement Company SA group of companies' ("Suez") 30% shareholding in Bristol Water Holdings UK Limited. Suez's operations and management ("O&M") agreement with Bristol Water Holdings UK Limited came to an end on the same date (together the "Agbar Purchase"). The Agbar Purchase was financed by a new equity subscription by iCON Bristol (via its holding company) to fund the purchase by CSE Water UK Limited of Agbar's shareholding. Simultaneously, the iCON Funds and Itochu (via their respective holding companies) provided short term funds to CSE Water UK Limited to finance payments owed by Bristol Water Holdings UK Limited to Agbar connected with the ending of the O&M arrangement with Agbar, further detail on which is contained below. iCON Bristol temporarily financed its share of funding for the Agbar Purchase with a temporary investment in iCON Bristol by iCON III (via a holding company). As a result of this transaction, the tiered ownership structure pursuant to which shareholders had held their interests at different levels within the group was collapsed, thereby simplifying governance of the group;
- Simultaneous with the Agbar Purchase on 15 December 2016, an intragroup transfer within the iCON group was undertaken whereby Capstone's 50% shareholding in CSE Water UK Limited was transferred from Capstone to be held directly by iCON III (via its holding company), thereby eliminating Capstone from iCON III's ownership chain for its 50% shareholding in Bristol Water plc; and
- On 29 January 2017, iCON III (via its holding company) was replaced as the temporary investor in iCON Bristol by the introduction of new limited partners to iCON Bristol, thereby completing a series of transactions whereby iCON Bristol was established as a co-investment fund alongside iCON III separately holding a 30% indirect shareholding in Bristol Water plc. iCON Bristol's interest is managed in parallel and consistent with iCON III's indirect investment in Bristol Water plc. The new limited partners introduced into iCON Bristol were a subset of the institutional investors that are investors in iCON III. This transaction was undertaken in order to manage diversification of iCON III's investment portfolio, having regard for the significant size of iCON III's indirect investment in Bristol Water plc as a proportion of its overall portfolio.

The Board considers that the new ownership of the Bristol Water plc's group should be positive for governance of the Company and positions it well to meet future challenges.

Financing and dividend policy of the group

In respect of dealings of the group with its ultimate shareholders:

No dividends were paid during the year (2015/16: £nil) by CSE Water UK Limited to the holding companies of Itochu or the iCON Funds (or their predecessor owners of CSE Water UK Limited), or by Bristol Water Holdings UK Limited to Agbar.

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

In December 2016, the iCON Funds and Itochu contributed additional funds totalling £9.0 million to the group headed by CSE Water UK Limited. These funds are being provided on a short term, non-interest bearing basis to CSE Water UK Limited by the holdings companies of the iCON Funds and Itochu, pro-rata to their ownership interests in CSE Water UK Limited. They were on-lent by CSE Water UK Limited to Bristol Water Holdings UK Limited to fund payments that were made to Agbar on 15 December 2016 in connection with the ending of Agbar's O&M arrangement with Bristol Water Holdings UK Limited.

INVESTORS' REPORT (continued)

As at 31 March 2017, Bristol Water plc's net debt, including preference shares, was £308.1m corresponding to a ratio of 65.5% to its regulated asset base, which is in close proximity to the 62.5% notional capital structure that Ofwat assumed for water companies in AMP6. The net debt of the consolidated group comprising CSE Water UK Limited and its subsidiaries is similarly consistent with Ofwat's assumption, after having adjusted for the £9.0m of short term receivables and accounting for mark-to-market adjustments for debt arising at the time of CSE Water UK Limited's acquisition of its interests in the group.

With regard to arrangements within the group comprising CSE Water UK Limited and its subsidiaries:

There are two upstream loans from Bristol Water plc to its immediate 100% shareholder Bristol Water Holdings Limited:- a £47.0 million loan from Bristol Water plc earning interest at the rate of 6.042% and a £21.5 million loan from Bristol Water plc earning interest at the rate of 5.550% (together the "Upstream Loans"). Bristol Water plc received interest payments of £3.2 million net of tax in respect of the Upstream Loans from Bristol Water Holdings Limited in the year ended 31 March 2017 (£3.2 million in 2015/16). Bristol Water Holdings Limited's interest payments to Bristol Water plc are current, being funded by dividends that Bristol Water Holdings Limited receives from Bristol Water plc. The Upstream Loans have been outstanding since 2003 and 2005, respectively, and are entirely internal to the consolidated group headed by CSE Water UK Limited. Management is currently exploring options for the repayment of the Upstream Loans in order to further simplify financial arrangements within the group.

During the year Bristol Water plc paid dividends of £9.2 million (£3.2 million in 2015/16) to its immediate 100% shareholder, Bristol Water Holdings Limited. £4.0m of these dividends were paid in anticipation of the opening of the non-household retail market which led to structural changes within the group, in particular funding of asset transfers from Bristol Water plc to Water 2 Business Limited and the movement of working capital requirements from the wholesale business within Bristol Water plc to the non-household retail activities of Water 2 Business Limited. These funds have subsequently been applied to meet the group's obligations to fund Water 2 Business Limited. The remainder of the dividends paid were largely applied to funding interest payments owing to Bristol Water plc in respect of the Upstream Loans as well as making payments to Agbar in relation to its O&M arrangement (which is no longer in place). As a result of the use of funds entirely within the group, no dividends were paid by the group to its ultimate shareholders (as detailed above).



Mel Karam
Chief Executive Officer
13 July 2017

INCOME STATEMENT

for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Revenue	3.2,5	111.0	110.9
Operating costs	6	(79.7)	(74.8)
Operating profit		31.3	36.1
Other net interest payable and similar charges	7	(9.3)	(7.2)
Dividends on 8.75% irredeemable cumulative preference shares	7	(1.1)	(1.1)
Net interest payable and similar charges		(10.4)	(8.3)
Profit before tax		20.9	27.8
Taxation on profit on ordinary activities	8	(0.9)	0.8
Profit for the financial year		20.0	28.6
Earnings per ordinary share	9	333.3p	476.7p

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

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Profit for the financial year		20.0	28.6
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial loss on retirement benefit surplus	24	(0.6)	(2.2)
Attributable current taxation	8	(0.1)	1.1
Remeasurements of defined benefit pension scheme	8	(0.2)	(8.0)
Change in the fair value of the interest rate swaps	19	0.2	(0.3)
Attributable deferred taxation	8	-	0.1
Other comprehensive expense for the year, net of tax		(0.7)	(9.3)
Total comprehensive income for the year		19.3	19.3

STATEMENT OF FINANCIAL POSITION

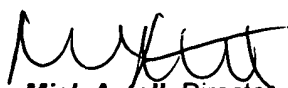
at 31 March 2017

		2017	2016
	Note	£m	£m
Non-current assets			
Property, plant and equipment	10	573.4	556.6
Intangible assets	11	5.1	5.0
Other investments - Loans to a UK holding company	12	68.5	68.5
Deferred income tax assets	23	5.1	5.2
Retirement benefit surplus	24	32.3	31.9
		<u>684.4</u>	<u>667.2</u>
Current assets			
Inventory	13	1.1	1.3
Trade and other receivables	14	22.3	30.7
Cash and cash equivalents	15	16.1	18.0
		<u>39.5</u>	<u>50.0</u>
Assets classified as held for a sale	16	8.1	-
Total assets		<u>732.0</u>	<u>717.2</u>
Non-current liabilities			
Borrowings and derivatives	18,20	(290.9)	(308.4)
8.75% irredeemable cumulative preference shares	18,25	(12.5)	(12.5)
Deferred income	21	(72.1)	(70.0)
Deferred income tax liabilities	23	(61.4)	(64.1)
		<u>(436.9)</u>	<u>(455.0)</u>
Current liabilities			
Current portion of borrowings and derivatives	18,20	(20.8)	(0.4)
Trade and other payables	17	(34.6)	(33.0)
Current portion of deferred income	21	(1.7)	(1.7)
Provisions for liabilities	22	-	(0.2)
		<u>(57.1)</u>	<u>(35.3)</u>
Liabilities classified as held for a sale	16	(1.0)	-
Total liabilities		<u>(495.0)</u>	<u>(490.3)</u>
Net assets		<u>237.0</u>	<u>226.9</u>
Equity			
Called-up share capital	25	6.0	6.0
Share premium account		4.4	4.4
Other reserves		4.3	4.1
Retained earnings		222.3	212.4
Total Equity		<u>237.0</u>	<u>226.9</u>

The financial statements of Bristol Water plc, registered number 2662226 on pages 82 to 118, were approved by the Board of Directors on 13 July 2017 and signed on its behalf by:



Mel Karam, Director, CEO



Mick Axtell, Director, CFO

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Called up share capital	Share premium account	Capital redemption reserve	Hedging reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2015	6.0	4.4	5.8	(1.5)	196.1	210.8
Profit for the year	-	-	-	-	28.6	28.6
Other comprehensive income for the year:						
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	-	(2.2)	(2.2)
Attributable current taxation	-	-	-	-	1.1	1.1
Remeasurement of defined benefit scheme	-	-	-	-	(8.0)	(8.0)
Fair value of interest rate swap	-	-	-	(0.3)	-	(0.3)
Attributable deferred taxation	-	-	-	0.1	-	0.1
Total comprehensive income for the year	-	-	-	(0.2)	19.5	19.3
Ordinary dividends	-	-	-	-	(3.2)	(3.2)
Balance as at 31 March 2016	6.0	4.4	5.8	(1.7)	212.4	226.9
Balance as at 1 April 2016	6.0	4.4	5.8	(1.7)	212.4	226.9
Profit for the year	-	-	-	-	20.0	20.0
Other comprehensive income for the year:						
Actuarial loss recognised in respect of retirement benefit obligations	-	-	-	-	(0.6)	(0.6)
Attributable current taxation	-	-	-	-	(0.1)	(0.1)
Remeasurement of defined benefit scheme	-	-	-	-	(0.2)	(0.2)
Fair value of interest rate swaps	-	-	-	0.2	-	0.2
Attributable deferred taxation	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	0.2	19.1	19.3
Ordinary dividends	-	-	-	-	(9.2)	(9.2)
Balance as at 31 March 2017	6.0	4.4	5.8	(1.5)	222.3	237.0

The Board has proposed a dividend of £nil in respect of the financial year 2016/17 (2015/16: £1m).

During the year the board approved dividends during the year totalling £9.2m, representing £3.2m in relation to the intercompany loan with BWHUK, £5.0m due to a redistribution of working capital in advance of the sale of the non-household retail book to Water 2 Business Limited and £1.0m as a distribution to shareholders.

CASH FLOW STATEMENT

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit before taxation		20.9	27.8
Adjustments for:			
Depreciation, net of amortisation of deferred income	6	17.2	17.2
Amortisation of intangibles	6	2.0	2.0
Difference between pension charges and normal contributions	24	0.5	(2.9)
Loss on disposal of assets	6	0.3	-
Interest income	7	(4.1)	(4.2)
Interest expense	7	16.1	14.0
Pension interest income	7	(1.6)	(1.5)
Decrease in inventory		0.2	-
Decrease in trade and other receivables		0.2	4.5
Decrease in trade and other creditors and provisions		(1.7)	(5.6)
Additional contributions to pension scheme	24	(0.1)	(0.4)
Cash generated from operations		49.9	50.9
Interest paid		(11.8)	(11.6)
Corporation taxes paid		(1.4)	(2.2)
Net cash inflows from operating activities		36.7	37.1
Cash flows from investing activities			
Purchase of property plant and equipment and intangibles		(35.7)	(33.5)
Contributions received	21	3.8	4.2
Proceeds from sale of fixed assets		0.1	0.1
Interest received	7	4.1	4.2
Net cash used in investing activities		(27.7)	(25.0)
Cash flows from financing activities			
Transaction costs related to loans and borrowings		(0.3)	-
Payment of finance lease liabilities		(0.3)	(0.3)
Preference dividends paid	7	(1.1)	(1.1)
Equity dividends paid		(9.2)	(3.2)
Net cash used in financing activities		(10.9)	(4.6)
Net (decrease) / increase in cash and cash equivalents		(1.9)	7.5
Cash and cash equivalents, beginning of year	15	18.0	10.5
Cash and cash equivalents, end of year	15	16.1	18.0

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

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

2 Basis of preparation

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

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

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

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

In the current year the Company has adopted a statement of financial position presentation which is in line with the financial statements produced by its parent company under IFRS. The 2015/16 comparative figures have been represented accordingly.

3 Summary of significant accounting policies

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

3.1 Going concern

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

3.2 Revenue

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

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

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

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

3.3 Property, plant and equipment and depreciation

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

Capitalisation of borrowing costs

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

Depreciation

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

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

Infrastructure assets	23 to 213 years
Operational properties and structures	3 to 100 years
Plant and equipment comprising:	
Treatment, pumping and general plant	2 to 30 years
Computer hardware, communications, meters and telemetry equipment	4 to 15 years
Vehicles and mobile plant	4 to 10 years
Assets under construction are not depreciated.	

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

Impairment

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

Disposal

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

3 Summary of significant accounting policies (continued)

3.4 Intangible assets

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

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

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

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

Disposal

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

3.5 Non-current assets held for sale

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

3.6 Grants and contributions (deferred income)

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

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

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

3.7 Pension costs

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

Defined benefit scheme

Defined benefit scheme liabilities are measured by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. In the prior year 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 was charged to operating profit. As the scheme was closed 31 March 2016 there are no employee service costs incurred in the period. Scheme running costs are charged to operating profit.

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

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

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

Defined contribution schemes

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

3 Summary of significant accounting policies (continued)

3.8 Research and development

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

3.9 Distributions to shareholders

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

3.10 Leased assets

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

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

3.11 Taxation

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

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

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

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

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

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

3.12 Cash and cash equivalents

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

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

3.13 Inventory

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments

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

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

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

Hedge accounting

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

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

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

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

3.15 Provisions

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

3.16 Trade and other receivables

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

3.17 Creditors

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

4 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

Revenue Recognition

An estimate of water consumption by metered customers since the date of the last bill and the corresponding income that remains not billed (accrued income) is required to be made each year. The accrual is based on metered volumes, and consumption already billed and tariffs. The accrued income is £12.6m (2015/16 £12.6m) and is included in note 14 prepayments and accrued income.

Classification of costs between operating expenditure and capital expenditure

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

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

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

Useful economic lives of property, plant and equipment

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

Useful economic lives of intangible assets

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

Impairment of trade receivables

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

4 Critical accounting estimates and judgments (continued)

Defined benefit pension scheme

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

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

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

Fair value of derivatives

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

5. REVENUE

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

6. OPERATING COSTS

(a) Operating costs includes –

	2017	2016
	£m	£m
Inventory recognised as an expense	2.3	2.2
Wages and salaries, including restructuring costs and other termination benefits	16.3	16.6
Social security costs	1.8	1.7
Defined contribution scheme costs (note 24)	1.7	1.2
Defined benefit scheme costs (note 24)	0.5	(1.4)
Total payroll cost	20.3	18.1
Less capitalised as tangible assets	(5.4)	(5.9)
Net staff cost	14.9	12.2
Depreciation of tangible assets (note 10)		
On owned assets	18.6	17.7
On leased assets	0.3	1.2
Amortisation of intangible assets (note 11)	2.0	2.0
Amortisation of related deferred income (note 21)	(1.7)	(1.7)
Other operating charges		
Research and development expenditure	0.1	0.1
Auditors' remuneration	0.1	0.2
Impairment of trade receivables (note 14)	2.9	2.6
Loss on disposal of tangible assets	0.3	-
Other charges less recoveries	39.9	38.3
Total operating costs	79.7	74.8

(b) Employee details

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

	2017	2016
	No.	No.
Water treatment and distribution	228	252
Support services	112	100
Administration	87	80
Non-appointed activities	12	16
	439	448

6. OPERATING COSTS (continued)

(c) Directors' emoluments -

	2017 £m	2016 £m
Aggregate emoluments of directors, being remuneration, bonus, pension, LTIP and benefits in kind	0.8	0.8
Compensation for loss of office	0.1	0.1
	<u>0.9</u>	<u>0.9</u>

The highest paid director during the year was Mr Garcia; full details of his, and all other directors' emoluments, are disclosed in the Remuneration Committee Report on pages 66 to 78.

(d) Independent auditors' remuneration

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

	2017 £'000	2016 £'000
Fees payable for the audit of the Company's annual statutory financial statement	<u>64</u>	<u>63</u>
Fees payable for other services:		
the review of the Company's interim financial statements	8	14
services pursuant to legislation, principally related to regulatory accounts and returns	42	36
agreed upon procedures work for our PR14 submission	-	10
review of PR 14 process	-	110
Review of PR 19 process	30	-
pension scheme review	-	3
'PwC Inform' subscription	1	1
Total non-audit fees	<u>81</u>	<u>174</u>

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2017 £m	2016 £m
Interest payable and similar charges relate to:		
Bank borrowings	2.3	2.3
Term loans and debentures:		
interest charges	9.5	9.4
indexation and amortisation of fees and premium on loans	3.5	1.7
Finance leases	0.1	-
Capitalisation of borrowing cost	(0.4)	(0.5)
Dividends on 8.75% irredeemable cumulative preference shares	1.1	1.1
	16.1	14.0
Less interest receivable and similar income:		
Interest income in respect of retirement benefit scheme (note 24)	(1.6)	(1.5)
Loan to Bristol Water Holdings UK Ltd – interest receivable	(4.0)	(4.0)
Other external investments and deposits income	(0.1)	(0.2)
	(5.7)	(5.7)
Total net interest payable and similar charges	10.4	8.3

The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.4% (2016: 4.6%), which is the weighted average interest rate of applicable borrowings.

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

8. TAXATION

	2017 £m	2016 £m
Tax expense / (income) included in Income Statement		
Current tax:		
Corporation tax on profits for the year	3.3	2.1
Adjustment to prior periods	0.2	(0.6)
Total current tax	3.5	1.5
Deferred tax:		
Origination and reversal of timing differences	0.9	3.8
Adjustment to prior periods	(0.2)	0.4
Effect of change in rate	(3.3)	(6.5)
Total deferred tax (note 23)	(2.6)	(2.3)
Tax expense / (income) on profit	0.9	(0.8)
Tax expense income included in other comprehensive income		
Current tax:		
Current year tax on defined benefit plan	-	(1.1)
Prior period adjustment on defined benefit plan	0.1	-
Deferred tax:		
Remeasurement of swap liability	-	(0.1)
Effect of corporation tax change in rate	-	(0.9)
Effect of pension change in rate	-	9.8
Remeasurement of post employment benefit liability	0.2	(0.9)
Total tax expense included in other comprehensive income	0.3	6.8

The current tax relief in the OCI in the prior year of £1.1m reflects the pension tax accounting, which generates an overall tax credit in the period. This credit has been allocated to the OCI to offset against the actuarial loss for the period.

8. TAXATION (continued)

Reconciliation of the tax on profit on ordinary activities

The current tax rate for the year is lower (2015/16: lower) than the standard rate of tax. A reconciliation between tax expense and the product of accounting profit multiplied by United Kingdom domestic tax rate is as follows:

	2017 £m	2016 £m
Profit before tax	20.9	27.8
At statutory income tax rate of 20% (2016: 20%)	4.2	5.6
Adjustments in respect to current income tax and deferred tax of previous years	-	(0.2)
Non-deductible expenses for tax purposes:		
8.75% irredeemable cumulative preference share	0.3	0.3
Other	(0.1)	-
	<u>4.4</u>	<u>5.7</u>
Effective income rate before rate change	21.1%	20.5%
Effect of tax rate change on opening balances	(3.3)	(6.6)
Effect of tax rate change on current year movement	(0.2)	0.1
Total taxation expense / (income) included in income statement	<u>0.9</u>	<u>(0.8)</u>

A change to reduce the UK Corporation tax rate to 17% from 1 April 2020 was substantively enacted on 6 September 2016 and is reflected in these financial statements.

9. EARNINGS PER ORDINARY SHARE

	2017 m	2016 m
Basic earnings per ordinary share have been calculated as follows -		
Earnings attributable to ordinary shares	£20.0	£28.6
Weighted average number of ordinary shares	6.0	6.0

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

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infra- structure assets £m	Assets under construction £m	Total £m
At 1 April 2015					
Cost	313.4	36.5	396.7	16.4	763.0
Accumulated depreciation	(127.6)	(22.2)	(67.2)	-	(217.0)
Net book amount	185.8	14.3	329.5	16.4	546.0
Year ended 31 March 2016					
Opening net book amount	185.8	14.3	329.5	16.4	546.0
Additions	-	-	-	29.6	29.6
Disposals	-	(0.1)	-	-	(0.1)
Capitalisation of completed assets	14.7	1.6	12.8	(29.1)	-
Depreciation charge (note 6)	(10.2)	(3.5)	(5.2)	-	(18.9)
Closing net book amount	190.3	12.3	337.1	16.9	556.6
At 31 March 2016					
Cost	317.2	34.7	409.5	16.9	778.3
Accumulated depreciation	(126.9)	(22.4)	(72.4)	-	(221.7)
Net book amount	190.3	12.3	337.1	16.9	556.6
Year ended 31 March 2017					
Opening net book amount	190.3	12.3	337.1	16.9	556.6
Additions	-	-	-	36.4	36.4
Disposals	(0.4)	-	-	-	(0.4)
Capitalisation of completed assets	11.2	3.1	13.3	(27.6)	-
Depreciation charge (note 6)	(10.2)	(3.5)	(5.2)	-	(18.9)
Transferred to assets classified as held for sale	(0.2)	(0.1)	-	-	(0.3)
Closing net book amount	190.7	11.8	345.2	25.7	573.4
At 31 March 2017					
Cost	323.3	36.6	422.7	25.7	808.3
Accumulated depreciation	(132.6)	(24.8)	(77.5)	-	(234.9)
Net book amount	190.7	11.8	345.2	25.7	573.4

Included within disposals are assets with a nil net book value at time of disposal. The original cost of these assets was £3.9m (2016: £13.4m).

The net book value of property, plant and equipment includes £4.9m (2016: £4.8m) of borrowing costs capitalised in accordance with IAS 23. During the year ended 31 March 2017 £0.4m (2016: £0.5m) was capitalised using a weighted average interest rate of 5.4% (2016: 4.6%). This is the weighted average interest of applicable borrowings.

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

Included above at 31 March 2017 is freehold land, not subjected to depreciation in the year, of £1.7m (2015/16: £1.7m).

Property, plant and equipment transferred to non-current assets held for sale amounts to £0.3m (2015/16: £nil) and are disclosed in note 16.

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Included above at 31 March 2017 are tangible assets held under finance leases analysed by asset type as follows:

	Freehold land, operational properties and structures £m	Plant and equipment £m	Infrastructure assets £m	Total £m
At 31 March 2017				
Cost	10.0	2.1	1.2	13.3
Accumulated depreciation	(8.6)	(2.1)	(1.0)	(11.7)
Net book value	1.4	-	0.2	1.6
At 31 March 2016				
Cost	25.5	2.1	1.2	28.8
Accumulated depreciation	(22.0)	(2.1)	(1.0)	(25.1)
Net book value	3.5	-	0.2	3.7

During the year a lease in secondary rental period with a cost of £15.5m and £1.6m net book value of operational assets was terminated. The assets have not been disposed.

11. INTANGIBLE ASSETS

	Computer Software £m	Assets under construction £m	Total £m
At 1 April 2015			
Cost	25.3	0.4	25.7
Accumulated amortisation	(19.2)	-	(19.2)
Net book amount	6.1	0.4	6.5
Year ended 31 March 2016			
Opening net book amount	6.1	0.4	6.5
Additions	-	0.5	0.5
Disposals	-	-	-
Capitalisation of completed assets	0.4	(0.4)	-
Amortisation charge (note 6)	(2.0)	-	(2.0)
Closing net book amount	4.5	0.5	5.0
At 31 March 2016			
Cost	24.2	0.5	24.7
Accumulated amortisation	(19.7)	-	(19.7)
Net book amount	4.5	0.5	5.0
Year ended 31 March 2017			
Opening net book amount	4.5	0.5	5.0
Additions	-	2.4	2.4
Disposals	-	-	-
Capitalisation of completed assets	2.6	(2.6)	-
Amortisation charge (note 6)	(2.0)	-	(2.0)
Transferred to assets classified as held for sale	(0.3)	-	(0.3)
Closing net book amount	4.8	0.3	5.1
At 31 March 2017			
Cost	25.7	0.3	26.0
Accumulated amortisation	(20.9)	-	(20.9)
Net book amount	4.8	0.3	5.1

Included within disposals are assets with a nil net book value at time of disposal. The original costs of these assets were £0.8m (2016: £1.4m).

Intangible assets transferred to non-current assets held for sale amounts to £0.3m (2015/16: £nil) and are disclosed in note 16.

Included above at 31 March 2017 are intangible assets held under finance leases analysed by asset type as follows:

	Computer software £m	Total £m
At 31 March 2017		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-
At 31 March 2016		
Cost	1.3	1.3
Accumulated depreciation	(1.3)	(1.3)
Net book value	-	-

12. OTHER INVESTMENTS – LOANS TO GROUP UNDERTAKINGS

£m

Balance at 31 March 2017 and 31 March 2016.

68.5

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

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

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

13. INVENTORY

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

14. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise:

	2017 £m	2016 £m
Trade receivables (a)	24.6	29.8
Less bad debt provision (a)	(14.1)	(16.8)
	10.5	13.0
Amounts owed by group and associated companies (b)	0.9	1.2
Other receivables	1.4	2.2
Prepayments and accrued income	9.5	13.6
Corporation tax recoverable	-	0.7
	22.3	30.7

(a) The aging of net trade receivables was:

	2017 £m	2016 £m
Past due by 0-30 days	1.6	2.6
Past due by 31-120 days	1.1	1.7
Past due by more than 120 days	7.8	8.7
	10.5	13.0

Bad debt provision:

	2017 £m	2016 £m
Opening balance	16.8	16.2
Provision for trade receivables impairment (note 6)	2.9	2.6
Trade receivables written off during the year as uncollectible	(4.7)	(2.0)
Provision relating to disposal group assets	(0.9)	-
Closing balance	14.1	16.8

14. TRADE AND OTHER RECEIVABLES (continued)

As at 31 March 2017, based on a review of collection rates, £14.1m (2016: £16.8m) of trade receivables were considered impaired and have been provided for.

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

Other receivables at 31 March 2017 and 31 March 2016 have not been impaired.

(b) The sum of £0.4m (2015/16: £0.4m) is included within the heading "Amounts owed by 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.

15. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following:

	2017 £m	2016 £m
Cash and cash equivalents	10.0	12.0
Restricted cash	6.1	6.0
	<u>16.1</u>	<u>18.0</u>

Restricted cash are funds the Company is required to maintain, under the terms of the STID, in a nominated account to cover estimated debt service payments arising during the following year. These funds are therefore not available for other operational use or distribution to shareholders.

16. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	2017 £m	2016 £m
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(a) Non current assets classified as held for sale

Property plant and equipment	0.2	-
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At 31 March 2017 land and property which is being actively marketed has been classified as held for sale. The sale is expected to complete in the 2017/18.

(b) Assets of disposal group classified as held for sale

	2017 £m	2016 £m
Property plant and equipment	0.1	-
Intangible assets	0.3	-
Trade receivables	3.4	-
Accrued income	4.1	-
	<u>7.9</u>	<u>-</u>

(c) Liabilities of disposal group classified as held for sale

	2017 £m	2016 £m
Receipts in advance	1.0	-
	<u>1.0</u>	<u>-</u>

The disposal group has been classified as held for sale following the decision by the management and shareholders on 2 February 2017 to sell the assets and liabilities relating to non-household activities to Water 2 Business Limited, an associate of Bristol Water Holdings Limited. The completion date for the transaction is expected by 31 March 2018.

17. TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Trade and other payables		
Receipts in advance	11.4	11.9
Trade payables	11.6	8.9
Amounts owed to associates	1.7	1.7
Other taxation and social security	0.6	0.7
Corporation tax payable	1.4	-
Payments received on account	1.2	1.7
Accruals	6.7	8.1
	34.6	33.0

All amounts owed to associates are unsecured, interest free and repayable on demand.

18. BORROWINGS AND DERIVATIVES

	2017 £m	2016 restated £m
Amounts falling due within one year		
Bank and other term loans – secured	20.0	-
Finance leases – secured (note 18, 26)	0.5	0.4
Interest rate swaps	0.3	-
	20.8	0.4
Amounts falling due after more than one year		
Bank and other term loans – secured	50.0	70.0
Finance leases – secured (note 18, 26)	1.5	1.9
Net unamortised premiums arising on issue of term loans	(0.3)	(0.3)
Interest rate swaps	1.2	2.0
Forward interest rate swaps	0.3	-
	52.7	73.6
Amounts falling due after more than five years		
Bank and other term loans – secured	234.2	230.6
Net unamortised premiums arising on issue of term loans	2.4	2.6
	236.6	233.2
Irredeemable		
Debentures	1.6	1.6
8.75% irredeemable cumulative preference shares (note 25)	12.5	12.5
	14.1	14.1
Total	324.2	321.3

None of the bank and other term loans included within creditors are payable in instalments.

18. BORROWINGS AND DERIVATIVES (continued)

Security for borrowings

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

In respect of the Company

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

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

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

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

	Interest rate %	Maturity	Total 2017 £m	Total 2016 £m
Current loans and borrowings				
£10,000,000 bank loan	1.04%	7 Dec 2017	10.0	-
£10,000,000 bank loan	5.73%	7 Dec 2017	10.0	-
Interest rate swap for £10,000,000 bank loan	5.03%	7 Dec 2017	0.3	-
Finance leases	3.89%	10 May 2020	0.5	0.4
Total current loans and borrowings			20.8	0.4
Non current loans and borrowings				
£10,000,000 bank loan	-	7 Dec 2017	-	10.0
£10,000,000 bank loan	-	7 Dec 2017	-	10.0
£50,000,000 bank loan	2.40%	29 Nov 2019	50.0	50.0
Interest rate swap for £50,000,000 bank loan	1.50%	29 Nov 2019	1.2	1.3
Interest rate swap for £10,000,000 bank loan	-	7 Dec 2017	-	0.7
Forward interest rate swap	0.93%	24 Mar 2020	0.3	-
Finance leases	3.89%	10 May 2020	1.5	1.9
£127,835,000 term loan	3.64%*	30 Sept 2032	130.2	127.8
£57,500,000 term loan	6.01%*	30 Sept 2033	57.5	57.5
£45,302,000 term loan	2.70%	25 Mar 2041	46.5	45.3
Net unamortised premiums*			2.1	2.3
£1,405,218 Consolidated debentures	4.00%	irredeemable	1.4	1.4
£36,740 perpetual debentures	4.25%	irredeemable	-	-
£54,875 perpetual debentures	4.00%	irredeemable	0.1	0.1
£72,900 perpetual debentures	3.50%	irredeemable	0.1	0.1
£12,500,000 cumulative preference shares	8.75%	irredeemable	12.5	12.5
Total non- current loans and borrowings			303.4	320.9

Borrowing facilities

Unutilised borrowing facilities are as follows:

	2017 £m	2016 £m
Expiring in August 2017	-	50.0
Expiring in December 2019	20.0	20.0
Expiring in December 2019	15.0	-
Expiring in December 2021	35.0	-
	70.0	70.0

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

19. FINANCIAL INSTRUMENTS

Fair value estimation

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

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

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

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

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

Interest-rate swaps

At 31 March 2017, the Company was party to two interest rate swaps with notional values of £10m and £50m. These swaps were effective from 22 October 2008 and 3 December 2014 and will expire on 7 December 2017 and 29 November 2019 respectively. The fair values of the interest rate swaps have been calculated by discounting the expected future cash flows by reference to the implied future 6 month LIBOR and 3 months LIBOR respectively, and hence the swaps are valued as Level 2 instrument as set out by IFRS 13 'Fair value measurement'.

The Company is also a party to a forward starting interest rate swap to hedge expected future borrowings. The effective date of the swap is 24 April 2018 and the swap will expire on 24 March 2020. The initial notional value of the swap is £25m, increasing in stages to a final notional value of £67.5m. The fair value of the forward starting swap has been calculated by discounting the expected future cash flows by reference to the implied future one month LIBOR. The forward starting swap has been valued as a Level 2 instrument accordingly.

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the liability arising under the swap agreements was recognised in these financial statements, as follows:

	2017 £m	2016 £m
Liability:		
Due under one year	0.3	-
Due after one year	1.5	2.0
	<u>1.8</u>	<u>2.0</u>

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' the Company has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet the requirements set out in the standard. As a result of this review no embedded derivatives were identified.

Fair values of financial assets and financial liabilities

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

19. FINANCIAL INSTRUMENTS (Continued)

Fair values of non-current financial assets and liabilities

	31 March 2017		31 March 2016	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Primary financial instruments issued to finance the Company				
Long-term borrowings	(289.4)	(438.2)	(306.4)	(395.8)
8.75% irredeemable cumulative preference shares	(12.5)	(20.4)	(12.5)	(18.0)
Primary financial instruments issued to finance Bristol Water Holdings UK Limited				
Long-term loans	68.5	94.9	68.5	86.7
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	(1.5)	(1.5)	(2.0)	(2.0)
	(234.9)	(365.2)	(252.4)	(329.1)

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

Fair values of other financial assets and liabilities

	31 March 2017		31 March 2016	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash and cash equivalents	16.1	16.1	18.0	18.0
Trade and other receivables	22.3	22.3	30.7	30.7
Financial liabilities				
Current portion of long-term borrowings	(20.8)	(20.8)	(0.4)	(0.4)
Other creditors	(34.6)	(34.6)	(33.0)	(33.0)
	(17.0)	(17.0)	15.3	15.3

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's main financial instruments comprise:

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

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

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

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

(a) Interest rate risk of financial assets

The financial assets include cash at bank and cash deposits which are all denominated in sterling. During the year cash and cash deposits were placed with banks for either a fixed term or repayable on demand earning interest at market rates. There are also interest-bearing fixed rate loans totaling £68.5m (2015/16: £68.5m) to Bristol Water Holdings UK Limited.

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

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

The Company's practice is to maintain the majority of its net debt on a fixed rate or a fixed margin above movements in RPI basis. At the year-end 39%* (2015/16: 40%*) of the Company's gross financial liabilities, excluding the 8.75% irredeemable cumulative preference shares, were at fixed rates. 96% (2015/16: 95%) 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.

20. FINANCIAL RISK MANAGEMENT (Continued)
(b) Interest rate risk and inflation risk of financial liabilities (Continued)

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

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

Interest rate sensitivity

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

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

	31 March 2017		31 March 2016	
	Profit before tax £m	Profit after tax £m	Profit before tax £m	Profit after tax £m
Movement in interest rate of 100bp	0.1	0.1	0.1	0.1

Inflation rate sensitivity

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

	2017 £m	2016 £m
Index-linked debt	176.7	173.1

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 2017		31 March 2016	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
Movement in Retail Price Index by 1%	1.8	1.5	1.7	1.4

20. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk

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

Under the terms of the STID, cash at bank and cash deposits are placed with banks with a minimum of Moody's P-1 and Standard & Poors A-1 credit ratings.

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

	2017 £m	2016 £m
Long-term loans	68.5	68.5
Cash and cash equivalents	16.1	18.0
Trade and other receivables, net of bad debt provisions made	22.3	30.7
	106.9	117.2

There is no collateral held as security in respect of the above financial assets.

(d) Liquidity risk

It is the Company policy to maintain continuity of funding. At the year-end 77% (2015/16: 76%) of its financial liabilities, including 8.75% irredeemable cumulative preference shares, mature after five years or are irredeemable.

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

The Company has a £20m facility expiring in December 2019, a £15m facility expiring in December 2019 and a £35m facility expiring in December 2021. All the facilities are floating rate and incur non-utilisation fees at market rates. At the year end all of these facilities remain undrawn.

Under the terms of the STID the Company is required to maintain sufficient funds in a nominated account to cover estimated debt service payments arising during the following year. These funds, currently amounting to approximately £6.1m (2015/16: £6.0m), are therefore not available for other operational use or distribution to shareholders.

The table below details the Company's remaining contractual payments until maturity for its non-derivative financial liabilities. The table is based on the undiscounted cash flows, and includes estimates of future interest payments and loan indexation on financial liabilities. At 31 March 2017 we have assumed that indexation will be applied at the rate of 3.9% p.a. At 31 March 2016 we have assumed that indexation will be applied at the rate of 1.9% p.a. These were the prevailing rates for inflation on indexed linked loans at these dates and have been applied for each year until maturity.

20. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Year ended 31 March 2017	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Trade creditors	11.6	-	-	-	11.6
Due to group and associated companies	1.7	-	-	-	1.7
Other taxation and social security	0.6	-	-	-	0.6
Corporation tax payable	1.4	-	-	-	1.4
Accruals	1.4	-	-	-	1.4
Interest bearing loans and related interest	31.5	11.4	82.4	559.9	685.2
	48.2	11.4	82.4	559.9	701.9

Year ended 31 March 2016	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Trade creditors	8.9	-	-	-	8.9
Due to group and associated companies	1.7	-	-	-	1.7
Other taxation and social security	0.7	-	-	-	0.7
Accruals	2.0	-	-	-	2.0
Interest bearing loans and related interest	11.6	31.5	82.6	450.2	575.9
	24.9	31.5	82.6	450.2	589.2

Derivative financial instruments and hedge accounting

The Company has entered into two interest rate swaps with notional values of £10m and £50m. These were effective from 22 October 2008 and 3 December 2014 respectively. The Company has also entered into a forward starting swap to hedge expected future borrowings up to a notional value of £67.5m. The effective date of the forward starting swap is 24 April 2018. The Company uses interest-rate swaps as hedging instruments to hedge cash flows in respect of future interest payments, and accordingly hedge accounting is applied as mentioned in note 3.14.

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

20. FINANCIAL RISK MANAGEMENT (continued)
(d) Liquidity risk (continued)

Year ended 31 March 2017	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Interest rate swaps					
Forecast receipts	0.2	0.3	0.3	-	0.8
Contractual payments	(1.0)	(0.8)	(0.5)	-	(2.3)
Net forecast cash outflow	(0.8)	(0.5)	(0.2)	-	(1.5)
Forward interest rate swaps					
Forecast receipts	-	0.1	0.4	-	0.5
Contractual payments	-	(0.2)	(0.5)	-	(0.7)
Net forecast cash outflow	-	(0.1)	(0.1)	-	(0.2)
Total net forecast cash outflow	(0.8)	(0.6)	(0.3)	-	(1.7)

Year ended 31 March 2016	Due within one year	Between one and two years	Between two and five years	After five years	Total
	£m	£m	£m	£m	£m
Forecast receipts under the interest rate swap	0.4	0.4	0.8	-	1.6
Contractual payments under the interest rate swap	(1.3)	(1.1)	(1.3)	-	(3.7)
Net forecast cash outflow	(0.9)	(0.7)	(0.5)	-	(2.1)

(e) Covenants compliance risk

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

21. DEFERRED INCOME

	2017 £m	2016 £m
Net book value, beginning of year	71.7	69.2
Additions	3.8	4.2
Amortisation charge for the year (note 6)	(1.7)	(1.7)
Net book value, end of year	73.8	71.7
	2017 £m	2016 £m
Current	1.7	1.7
Non-current	72.1	70.0
	73.8	71.7

22. PROVISIONS FOR LIABILITIES

Reconciliation of staff redundancies:	2017 £m	2016 £m
Opening balance	0.2	1.1
Arising during in the year	0.1	0.1
Utilised	(0.3)	(1.0)
Closing balance	-	0.2

In 2015 a provision of £1.1m was made for the employee related costs of redundancies announced in March 2015.

23. DEFERRED TAXATION

	31 March 2017 £m	31 March 2016 £m
Provision for deferred tax comprises:		
Accelerated capital allowances and capital element of finance leases	61.4	64.1
Deferred income	(4.6)	(4.8)
Short-term timing differences	(0.1)	-
Retirement benefit obligations	-	-
Interest rate swaps	(0.4)	(0.4)
Net deferred tax liability	56.3	58.9

Reflected in the statement of financial position as follows:

Deferred taxation asset	(5.1)	(5.2)
Deferred taxation liability	61.4	64.1
Deferred tax liabilities net	56.3	58.9

Deferred tax liabilities	Retirement benefit asset	Accelerated capital allowances	Other	Total
At 1 April 2015	9.3	67.6	0.1	77.0
Credited to the income statement	-	(3.5)	(0.1)	(3.6)
Charged to other comprehensive income	7.8	-	-	7.8
Reclassified on balance sheet	(17.1)	-	-	(17.1)
At 31 March 2016	-	64.1	-	64.1
Credited to the income statement	-	(2.7)	-	(2.7)
At 31 March 2017	-	61.4	-	61.4
Deferred tax assets	Deferred income	Fair value gains	Other	Total
At 1 April 2015	(6.1)	(0.3)	-	(6.4)
Charged to the income statement	1.3	-	-	1.3
Charged / (credited) to other comprehensive income	-	(0.1)	-	(0.1)
At 31 March 2016	(4.8)	(0.4)	-	(5.2)
(Charged) / credited to the income statement	0.2	-	(0.1)	0.1
At 31 March 2017	(4.6)	(0.4)	(0.1)	(5.1)

24. RETIREMENT BENEFIT SURPLUS

Defined benefit scheme

Pension arrangements for employees are partly provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section stopped earning additional defined benefit pensions on 31 March 2016. All eligible employees were offered membership of a stakeholder pension scheme.

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

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

The details of the last triennial valuation and current update on the funding position are provided on pages 31 and 32 in the Strategic Report.

From 1st April 2016, there were no employer contributions to the scheme. On 30th June 2016, with the agreement of the trustees, deficit contributions, previously of £0.4m per annum, also ceased.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of LDI funds which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short term.

(b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

(c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that the effect on assets of an increase in inflation will also reduce the surplus.

(e) Income tax rate risk

The value of the pension scheme surplus has been restricted by an income tax deduction of 35% under UK tax legislation. An increase in the income tax rate will reduce the net pension scheme surplus.

Basis of valuation

The formal actuarial valuation of the Company's section of the WCPS as at 31 March 2014 was updated to 31 March 2017, by Lane Clark & Peacock LLP, using the following major assumptions in accordance with IAS 19 (Employee Benefits):

24. RETIREMENT BENEFIT SURPLUS (continued)

	2017	2016
Assumptions:		
RPI Inflation	3.4%	3.1%
CPI Inflation	2.4%	2.1%
Pension increases in payment (uncapped CPI)	2.5%	2.3%
Pension increases in payment (CPI capped at 5% pa)	2.4%	2.2%
Discount rate	2.5%	3.3%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into the following average life expectancies in years:

	2017	2016
Life expectancy at age 60 at the balance sheet date		
- Men	28.8	28.7
- Women	30.7	30.6
Life expectancy at age 60 25 years from balance sheet date		
- Men	32.3	32.2
- Women	33.6	33.5

Reconciliation of scheme assets and liabilities:

	Assets £m	Liabilities £m	Total £m
Pension scheme surplus at 1 April 2015	211.0	(164.7)	46.3
Current service cost	-	(1.4)	(1.4)
Section expenses	(0.3)	-	(0.3)
Interest income (note 7)	6.7	(5.2)	1.5
Past service cost (note 6)	-	3.1	3.1
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	(3.7)	-	(3.7)
Changes in financial assumptions	-	2.8	2.8
Changes in demographic assumptions	-	(4.4)	(4.4)
Experience adjustments on obligation	-	3.1	3.1
	(3.7)	1.5	(2.2)
Benefits paid	(6.8)	6.8	-
Employer contributions	2.0	-	2.0
Employee additional contributions	0.3	(0.3)	-
Pension scheme surplus at 31 March 2016	209.2	(160.2)	49.0
Pension scheme surplus at 1 April 2016	209.2	(160.2)	49.0
Section expenses	(0.4)	-	(0.4)
Interest income (note 7)	6.8	(5.2)	1.6
Past service cost (note 6)	-	(0.1)	(0.1)
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	26.5	-	26.5
Changes in financial assumptions	-	(28.9)	(28.9)
Changes in demographic assumptions	-	-	-
Experience adjustments on obligation	-	1.8	1.8
	26.5	(27.1)	(0.6)
Benefits paid	(8.3)	8.3	-
Employer contributions	0.1	-	0.1
Pension scheme surplus at 31 March 2017	233.9	(184.3)	49.6

The past service cost shown above consists of an increase in the pension scheme obligations due to a discretionary pension increase to scheme members and a curtailment gain upon closure of the scheme to future accrued benefits.

24. RETIREMENT BENEFIT SURPLUS (continued)

	2017	2016
	£m	£m
Total amount recognised on the statement of financial position:		
Fair value of plan assets	233.9	209.2
Pension scheme obligation	(184.3)	(160.2)
Pension scheme surplus	49.6	49.0
Less: restriction of surplus	(17.3)	(17.1)
Net pension scheme surplus	32.3	31.9

In accordance with IAS19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Company believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised.

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been shown above as a restriction to the value of the net pension scheme asset that can be recognised for this scheme.

Sensitivity

The sensitivity of the pension scheme surplus at 31 March 2017

	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.5%	14.7	(16.9)
Inflation assumption (CPI)	0.5%	(13.7)	11.9
Life expectancy	One year	(7.7)	7.7

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Total cost recognised as an expense:

	2017	2016
	£m	£m
Current service cost	-	1.4
Past service cost (note 6)	0.1	(3.1)
Interest cost (note 7)	(1.6)	(1.5)
Section expenses	0.4	0.3
	(1.1)	(2.9)

The market value of the plan assets was:

	2017				2016			
	Quoted	Unquoted	2017 £m	%	Quoted	Unquoted	2016 £m	%
Equities	3.3	-	3.3	1.4	4.3	-	4.3	2.1
Diversified growth funds	6.6	-	6.6	2.8	6.2	-	6.2	2.9
LDI funds	142.0	25.1	167.1	71.4	155.3	(19.1)	136.2	65.1
Liquidity funds	39.4	8.7	48.1	20.6	42.0	12.5	54.5	26.0
Emerging markets multi-asset funds	3.8	0.2	4.0	1.7	3.4	0.1	3.5	1.7
High yield bonds	4.1	-	4.1	1.8	3.7	-	3.7	1.8
Cash	-	0.7	0.7	0.3	-	0.8	0.8	0.4
	199.2	34.7	233.9	100	214.9	(5.7)	209.2	100

24. RETIREMENT BENEFIT SURPLUS (continued)

The return on the plan assets was:

	2017	2016
	£m	£m
Interest income	6.8	6.7
Remeasurements	26.5	(3.7)
Total return on plan assets	<u>33.3</u>	<u>3.0</u>

The current weighted average duration of the expected benefit payments from the Section is around 17 years.

Defined contribution scheme

The Company operates defined contribution retirement benefit schemes for employees. Following the closure of the defined benefit scheme all affected employees have been offered membership of this scheme. The total cost charged to income of £1.7m (2015/16: £1.2m) represents contributions payable to the scheme. As at 31 March 2017 and 31 March 2016, all contributions due have been paid over to the scheme.

The amount recognised as an expense for the defined contribution scheme was:

	2017	2016
	£m	£m
Current period contributions	1.7	1.2

25. SHARE CAPITAL

Ordinary shares of £1 each

	2017	2017
	No.	£m
Issued and fully paid		
Opening balance	5,998,025	6.0
Issued during the year	-	-
Closing balance	<u>5,998,025</u>	<u>6.0</u>

All shares rank pari passu in all respects.

Preference shares of £1 each

	2017	2017
	No.	£m
Issued and fully paid		
Opening balance	12,500,000	12.5
Issued during the year	-	-
Closing balance	<u>12,500,000</u>	<u>12.5</u>

The preference shares are classified as liabilities in the balance sheet.

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

The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each.

26. COMMITMENTS

Capital commitments at 31 March 2017 contracted for but not provided were £5.5m (2015/16: £5.1m).

Minimum lease payments under finance leases

The future minimum finance lease payments are as follows:

	2017 £m	2016 £m
Within one year	0.5	0.4
Between one and five years	1.5	2.0
After five years	-	-
Total gross payments	2.0	2.4
Impact of finance charges	-	(0.1)
Carrying value of liability	2.0	2.3

The above payments relate to the lease of plant and equipment which ends in May 2020. There is no option to purchase at the end of the lease.

27. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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

As at 31 December 2015, the directors considered the ultimate parent and controlling party of the Company to be Capstone Infrastructure Corp. ("CIC"), a company incorporated in Canada, due to its majority ownership of CSE Water.

On 29 April 2016, CIC was acquired by Irving Infrastructure Corp., an indirect subsidiary of iCON Infrastructure Partners III, L.P. ("iCON III"), incorporated in Canada. As a result of the acquisition of CIC, iCON III, acting through its Managing General Partner, iCON Infrastructure Management III Limited ("iIML III"), became the ultimate parent and controlling party of the Company.

On 15 December 2016, CIC sold its shareholding in CSE Water to iCON III Bristol Limited, a wholly owned subsidiary of iCON III, incorporated in Guernsey.

The smallest and largest group in which the Company is consolidated is CSE Water UK Limited and copies of its consolidated annual report are available from 20-22 Bedford Row, London, WC1R 4JS.

RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the CSE Water UK Limited group of companies, member of the iCON Infrastructure 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. At the year end members of the Agbar Suez Environnement Company S.A group of companies were no longer related parties.

The principal related parties are:

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

Bristol Water Holdings UK Limited (BWHUK), registered in England and Wales, whose year-end is 31 March.

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

Water 2 Business Limited (W2B), registered in England and Wales, whose year-end is 30 June. The interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group which owns 30 class 'B' shares in the company representing a holding of 30% of equity rights and 40% of voting rights of the company. W2B is a joint operation undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services.

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

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

Trading transactions

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

	Sales of goods and services		Purchases of goods and services	
	2017	2016	2017	2016
	£m	£m	£m	£m
Members of the CSE Water group				
BWHUK management charges	0.1	-	-	-
Members of the Suez group				
Suez Advanced Solutions Holdings UK Limited (previously Aqualogy Solutions and Technologies UK Limited)	-	-	0.1	0.1
Suez Advanced Solutions UK Limited	-	-	0.1	0.1
Joint ventures and associates of the CSE Water group				
BWBSL				
- management charges	-	-	2.5	3.0
- capital expenditure	-	-	0.1	0.1
- other recharges	-	-	0.3	0.2
W2B				
- management charges	-	-	0.7	-
	0.1	-	3.8	3.5

28. RELATED PARTY TRANSACTIONS

At the year end the balances held with related parties were:

	Amounts due from		Amounts due to	
	2017 £m	2016 £m	2017 £m	2016 £m
Joint ventures and associates of the BWHUK group				
BWBSL	0.5	0.8	0.5	1.2
W2B	-	-	0.7	-
Joint ventures of the Agbar group				
ASTS	-	-	-	-
	0.5	0.8	1.2	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 66 to 78.

29. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 3 April 2017 Bristol Water plc sold assets with a book value of £7.0m to Water 2 Business Limited for a purchase price of £9.1m. Water 2 Business Limited is an associate of Bristol Water Holdings Limited. The assets sold include non-household customer lists, tangible and intangible assets, debtors and accrued income. The sale related to the retail non-household operations, for which the associated revenue was £1.6m in the year.

On 3 July 2017 the company entered into new credit facilities of £25 million with an expiry date of 7 December 2021.

Independent auditors' report to the members of Bristol Water plc

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Annual Report, comprise:

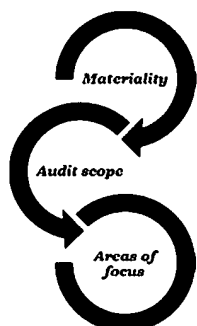
- the Statement of Financial Position as at 31 March 2017;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview



- Overall materiality: £1,045,000 which represents 5% of profit before tax.
-
- The company is structured as a single reporting unit and the audit was carried out by a single audit team.
-
- Provision for impairment of domestic trade debtors.
 - Classification of expenditure on infrastructure assets.
 - Valuation of the pension scheme.
-

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Provision for impairment of domestic trade debtors	
Refer to page 56 of the Corporate Governance Report and note 14 of the financial statements	We evaluated the model used to calculate the provision and confirmed its consistency with prior years.
The recoverability of customer debts is always a key issue for water companies. Even though the cash collection rates have shown clear indications of improvement in recent years, the recoverability is very sensitive to changes in economic circumstances.	We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using historical cash collection trends from prior years and the latest available cash collection data for the current year. We also performed sensitivity analysis on the future cash collection rates by major customer category in order to identify the significance of the collection rates used on the overall value of the provision. We found that, consistent with prior years, the level of provision was within our expected range.
Classification of expenditure on infrastructure assets	
Refer to page 56 of the Corporate Governance Report and note 10 of the financial statements	We tested a sample of expenditure on infrastructure items in the year to supporting documentation, such as contract certificates and invoices, and were satisfied that they had been classified in accordance with the company's accounting policies.
Expenditure on infrastructure assets is either capitalised as an addition to tangible assets or written off to the income statement, depending on the nature of the work done. Given the size and complexity of the capital programme and how it relates to the company's assessed performance for regulatory purposes, the classification of expenditure requires very significant management judgement.	
Valuation of the pension scheme	
Refer to page 55 of the Corporate Governance Report and note 24 of the financial statements	We formed an independent expectation of the key pension valuation assumptions, including the discount rate, inflation rate and life expectancy, compared them with those adopted by the Company and found them to be in line with our expectations.
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 checked the accuracy of the data provided to the actuary by the company and used in their valuation, in particular the contributions paid by the company.
	We obtained third party confirmations of the valuation of the pension assets.
	We also obtained appropriate evidence for the competency and qualifications of the actuary who performed the valuation, and checked the information provided by the actuary to the financial statements.

Area of focus	How our audit addressed the area of focus
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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.

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

Materiality

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

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

Overall materiality	£1,045,000 (2016: £1,222,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £104,000 (2016: £122,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 65, 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.

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or - otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 50, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 52, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the directors' confirmation on page 38 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 38 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Other voluntary reporting

Opinion on additional disclosures

Directors' Remuneration Report

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

What an audit of financial statements involves (continued)

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
13 July 2017